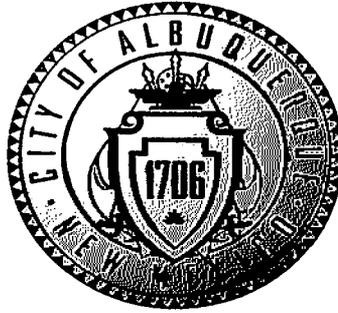


**City of Albuquerque
Office of Internal Audit**



**Fiscal Year 2011 Annual Report
July 1, 2010 - June 30, 2011**



City of Albuquerque
Accountability in Government Oversight Committee
P.O. Box 1293 Albuquerque, New Mexico 87103

August 31, 2011

Honorable Mayor Richard J. Berry, Members of the City Council, and Citizens of Albuquerque:

The Accountability in Government Oversight (AGO) Committee would like to recognize the Office of Internal Audit (OIA) director and her staff for the continued service to the Administration, City Council and the Citizens of the City of Albuquerque.

As this annual report demonstrates, OIA produces audits that include recommendations intended to improve City processes which result in potential cost savings. It also shows the service OIA provides by offering its expertise in responding to requests for assistance from department personnel.

The AGO Committee has found the OIA staff to be a professional and respected resource for the City of Albuquerque. As an independent, objective set of eyes that can help the organization accomplish its objectives, OIA is certainly an integral part of the City of Albuquerque government.

Sincerely,

Harry L. Tipton, Chairperson for
Accountability in Government Oversight Committee

Patricia A. Caristo
Craig G. Colter
Gerry T. Kardas
Jean Strosinski

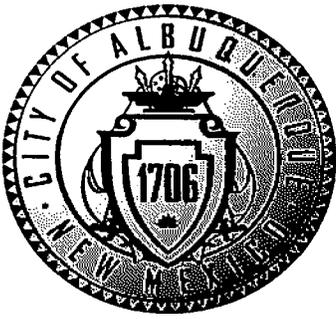


**Office of Internal Audit
FY 2011 Annual Report
July 1, 2010 - June 30, 2011**

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MISSION STATEMENT:
To provide independent
audits that promote
transparency,
accountability, efficiency
and effectiveness of City
government for the
citizens of Albuquerque.



City of Albuquerque
Office of Internal Audit
P.O. Box 1293 Albuquerque, New Mexico 87103

August 31, 2011

Honorable Mayor, Members of the City Council, Accountability in Government Oversight Committee and Citizens of Albuquerque:

The mission of the Office of Internal Audit (OIA) is to provide independent audits that promote transparency, accountability, efficiency and effectiveness of City government for the citizens of Albuquerque. We operate under the authority of the Accountability in Government Ordinance (AGO). The AGO established OIA as an independent organization to perform internal audits. OIA is not part of and does not report to the City's executive branch or the City Council.

The goals of the department are to conduct audits in an efficient, impartial, equitable and objective manner; and propose ways to increase the City's legal, fiscal and ethical accountability through the use of audits to insure that tax payers' dollars are spent in a manner that improves the economy of operations.

OIA performs performance audits that adhere to Government Auditing Standards. These audits provide objective analysis so that management and those charged with governance and oversight can use the information to:

- improve program performance and operations
- reduce costs
- facilitate decision making by parties with responsibility to oversee or initiate corrective action
- contribute to public accountability.

The AGO requires the Director to report annually to the Council and the Mayor regarding the activities of the office. This annual report of OIA is for the year ended June 30, 2011.

OIA FY2011 Highlights

- ✓ OIA issued six audit reports, three follow-ups and three investigations.
- ✓ OIA passed its second peer review by the Association of Local Government Auditors in September 2010. (*see Appendix A*)
- ✓ In December 2010, the City Council voted to remove the Inspector General Division from the Office of Internal Audit. The new Office of the Inspector General reports directly to the Accountability in Government Oversight Committee.

- ✓ The fiscal year (FY) 2009 initiative to integrate ACL software into the audit process is still in progress. The Senior Information Systems Auditor is assisting the staff to find appropriate areas to utilize ACL.

The FY 2012 approved budget for the Office of Internal Audit is \$802 thousand, an increase of \$94 thousand or 13% from the FY 2011 budget of \$708 thousand. As part of the citywide savings plan, two unbudgeted positions were deleted from the department's budget and funding for one position was reinstated. During FY 2011, the Office of Internal Audit was restored to the structure that existed prior to a 2004 ordinance change that added the position of Inspector General. This will allow the office to focus on audits that offer recommendations to improve the efficiency and effectiveness of City processes.

The City Council established an objective for FY 2011 that concerned OIA. The Department of Finance and Administrative Services, Office of Management and Budget (OMB), performed a study to determine “. . . the advisability of contracting the internal audit function to an outside vendor. Calculate any cost savings, conduct a risk assessment, and examine Government Finance Officer Association (GFOA) best practices and other governmental best practices as appropriate, including relevant academic studies on this issue. Report the advantages and disadvantages of contracting the internal audit function to a private sector auditing and accounting firm.”

OMB completed the study and concluded that, “. . . there is little justification for outsourcing internal audit services without a significant change in the current internal audit structure.”

The City Council adopted a new objective for FY 2012:

Using existing staff and available resources, conduct a follow-up study to determine the advisability of contracting the internal audit function to an outside vendor. Increase the number of cities to be surveyed to a minimum of twenty. A minimum of 40% of the cities surveyed should use an external auditor as a co-source or out-source for the city's internal audit function. Cities should be of similar population size and/or annual operating budget as the City of Albuquerque. The follow-up survey should include, at a minimum, per city: the number of audits specified in the annual audit plan and the number completed; the average length of time it takes to complete an audit from the date it is started to the date of publication of the audit report; the average number of audits auditors are working on at a given point in time; and the average cost of the audit. The Office of Internal Audit shall have minimal involvement with the study. Report study results and recommendations to the Mayor and City Council by the end of second quarter, FY/12.

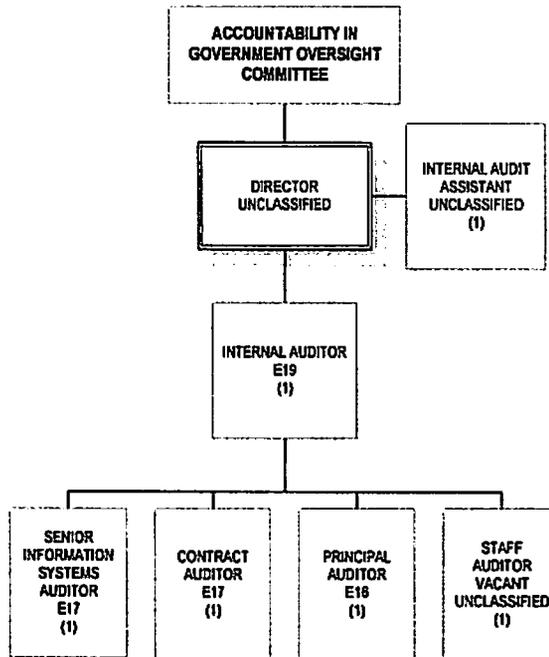
OIA will continue to work with the City Council and the Administration to find the proper balance between independently reporting the results of audits and maintaining the public's trust in the City and its employees.

Sincerely,



Carmen L. Kavelman, CPA CISA CGAP
Director

**OFFICE OF INTERNAL AUDIT
ORGANIZATION CHART
June 27, 2011**

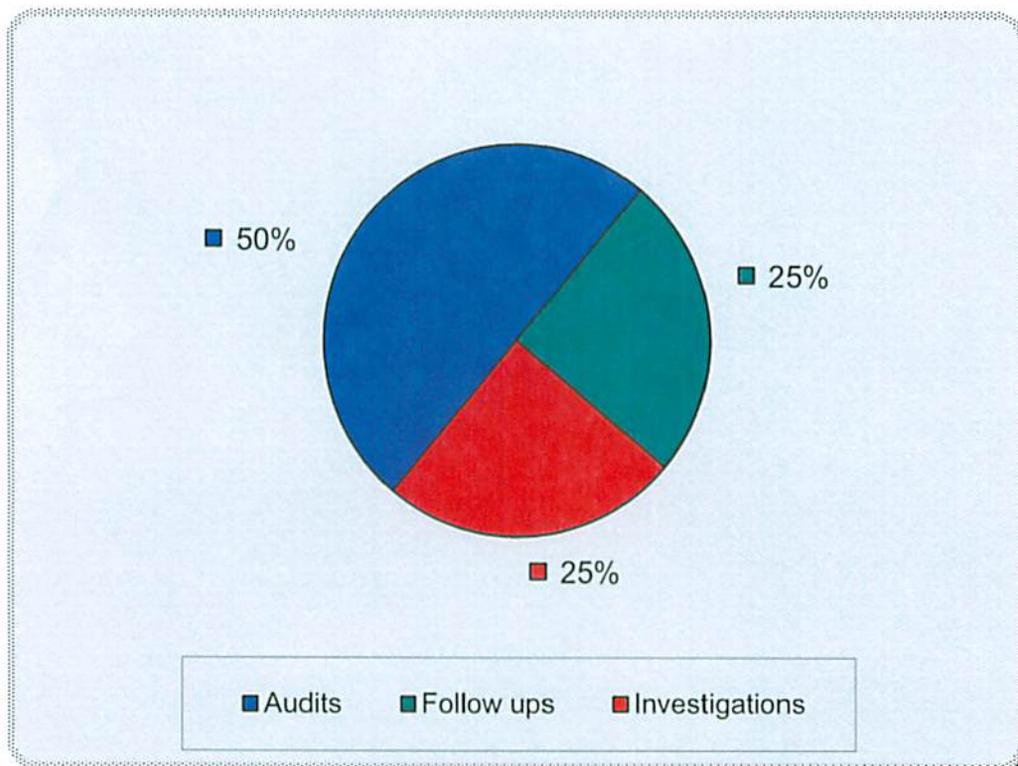


REPORTS

The Office of Internal Audit (OIA) had 12 reports approved by the Accountability in Government Oversight Committee in Fiscal Year (FY) 2011:

- 6 Audits
- 3 Follow-ups
- 3 Investigations

FY11 REPORTS BY TYPE



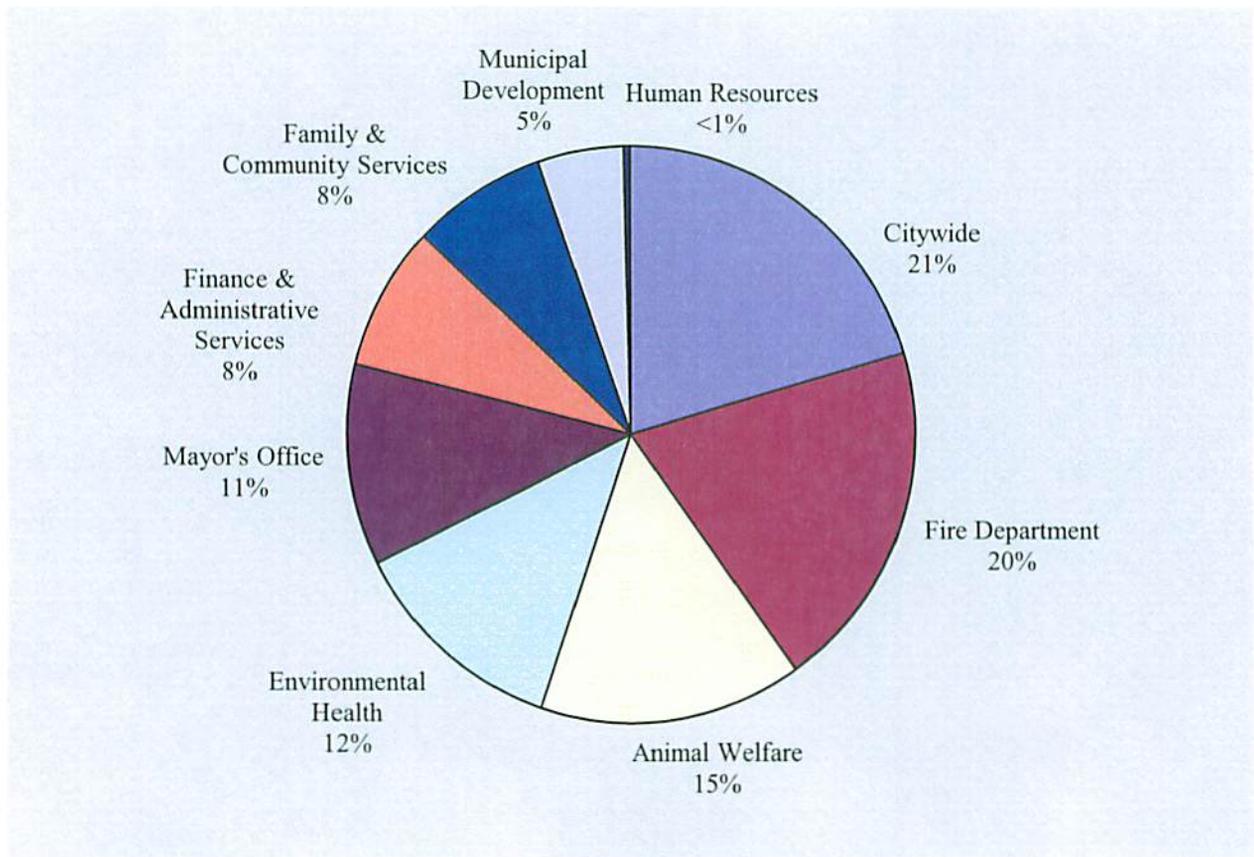
Reports Approved in FY10

Date	Number	Name	Type
10-06-10	09-108	Management Audit - Paseo Del Norte Extension - Department of Municipal Development	Audit
10-06-10	10-104	Management Audit - Parking Division - Department of Municipal Development	Audit
10-18-10	10-108	Report to the Council - Citywide FY10 3rd Quarter Budget Projections	Audit
02-23-11	10-107	Management Audit - Social Service Contracts - Department of Family and Community Services - Community Development and Behavioral Health Divisions	Audit
03-02-11	10-109	Special Audit - Fund 242 Expenditures - Environmental Health Department - Air Quality Division	Audit
04-27-11	11-102	Special Audit - Mayor's Office - Mayor and First Lady's Charity Gala	Audit
11-05-10	10-07-107F	Purchasing Card Program Audit - Citywide	Follow-up
04-27-11	11-07-104F	Quarter Cent Public Safety Tax - Albuquerque Fire Department	Follow-up
04-27-11	11-06-109F	Housing Authority Fund - Department of Family & Community Services	Follow-up
12-15-10	10-205	Payroll Irregularities - Department of Finance and Administrative Services	Investigation
02-23-11	10-211	Fire Time Changes - Albuquerque Fire Department	Investigation
04-27-11	10-208	Fire Shift Trades - Albuquerque Fire Department	Investigation

AUDIT/INVESTIGATION HOURS BY DEPARTMENT

Citywide	972
Fire Department	936
Animal Welfare	716
Environmental Health	589
Mayor's Office	536
Finance & Administrative Services	386
Family & Community Services	364
Municipal Development	235
Human Resources	18

The above table does not include 1,147 hours of miscellaneous IT, audit and investigation hours.



SPECIAL PROJECTS

OIA was involved in several projects at the request of the Council, Administration or both. Some of the more significant projects were as follows:

- ***Chief Administrative Officer Budget Hearings***

At the invitation of the Administration, OIA staff members attended the FY12 department budget hearings held with the Office of Management and Budget.

- ***Citizen's Independent Salary Commission***

OIA served as the staff support for the Citizen's Independent Salary Commission (CISC) that was created by City of Albuquerque voters at the Regular Municipal Election on October 6, 2009, to set the salaries of the Mayor and City Councilors. The five-member Commission deliberated a total of 77.4 hours to produce a report and recommendations (*see Appendix B*). The report was not an OIA product; however, staff provided approximately 275 hours of work on research and support. The CISC determined that City Council members would receive an annual salary of \$17,500 beginning with the Councilors elected in 2011, with an additional \$2,000 for the president. The CISC believed the wage provided the mayor was adequate and it was not changed.

- ***Enterprise Resource Planning (ERP) Business Alignment Committee (BAC)***

At the request of the Administration, the Director attended the early meetings of the BAC as an advisory member.

- ***Accounting Officer Interviews***

The Director was invited by the Administration to serve as one of the four panel members that interviewed the applicants for the vacant Accounting Officer position. The Chief Administrative Officer made the final selection.

- ***Information Technology Infrastructure Library (ITIL)***

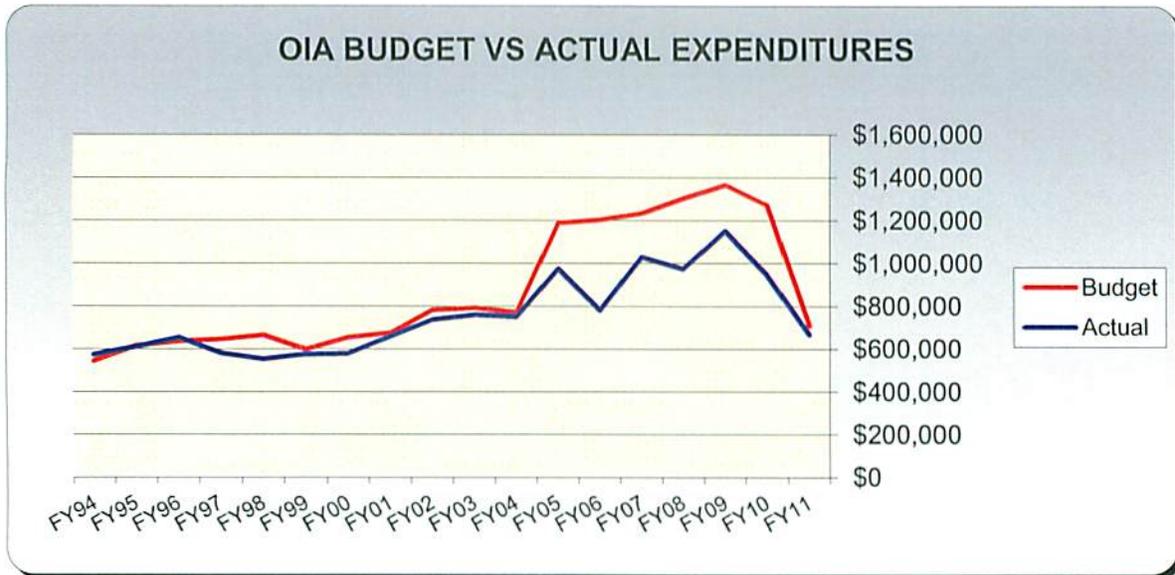
The Senior IS Auditor started participating in the ITIL certification process on June 15, 2011. His goal is to be ITIL certified by September 30, 2011. ITIL provides a practical, no-nonsense framework for identifying, planning, delivering and supporting IT services to the business. The policies, procedures, and processes developed by the City will be an excellent source of criteria for future IT audits.

- ***Albuquerque Police Department (APD) - Equitable Sharing Agreement and Certification Report***

Audit staff assisted APD, Special Investigations Division (SID) by reviewing the cash balances, fund transfers, revenue and expense reported to supporting documentation. The staff reported discrepancies to the APD SID management.

BUDGET

In FY 2011, OIA was budgeted as one program strategy, with two separate activities (Internal Audit and Inspector General.) The FY 2011 budget of \$928,000 was reduced by \$220,000 to \$708,000 mid-year, when the Inspector General activity was made a separate department. Expenditures for the year were approximately \$666,661*. The chart below contains budget and actual expenditure comparison for previous years.



Note: For the years FY05 through FY10, the budget contained funding for the Inspector General activity.

**Actual expenditures for FY11 are approximate, as they are unadjusted and unaudited.*

PERFORMANCE MEASURES - OIA

The Program Strategy for OIA is to enhance public confidence and promote efficiency, effectiveness, accountability and integrity in City government by:

- ⌘ Ensuring compliance with City ordinances, resolutions, rules, regulations and policies
- ⌘ Recommending operational improvements and service measurement integrity
- ⌘ Recommending programs/policies which educate and raise the awareness of all City officials and employees.

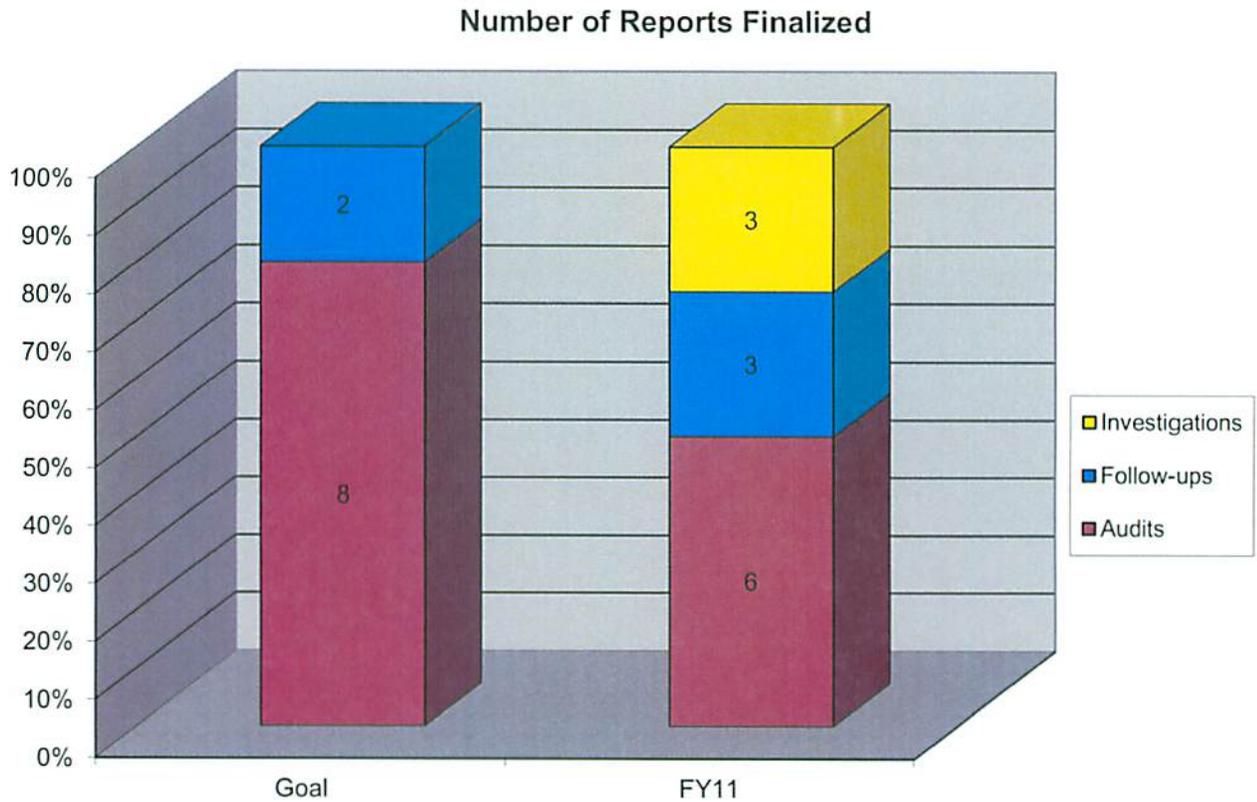
The OIA Program Strategy is a part of the City's Goal 8, *Government Excellence and Effectiveness*.



PERFORMANCE MEASURES - CONTINUED

The FY11 strategy outcome and performance measures are as follows:

Output Measure: Complete audits, follow-ups and investigations to improve City operations, programs and contract management.

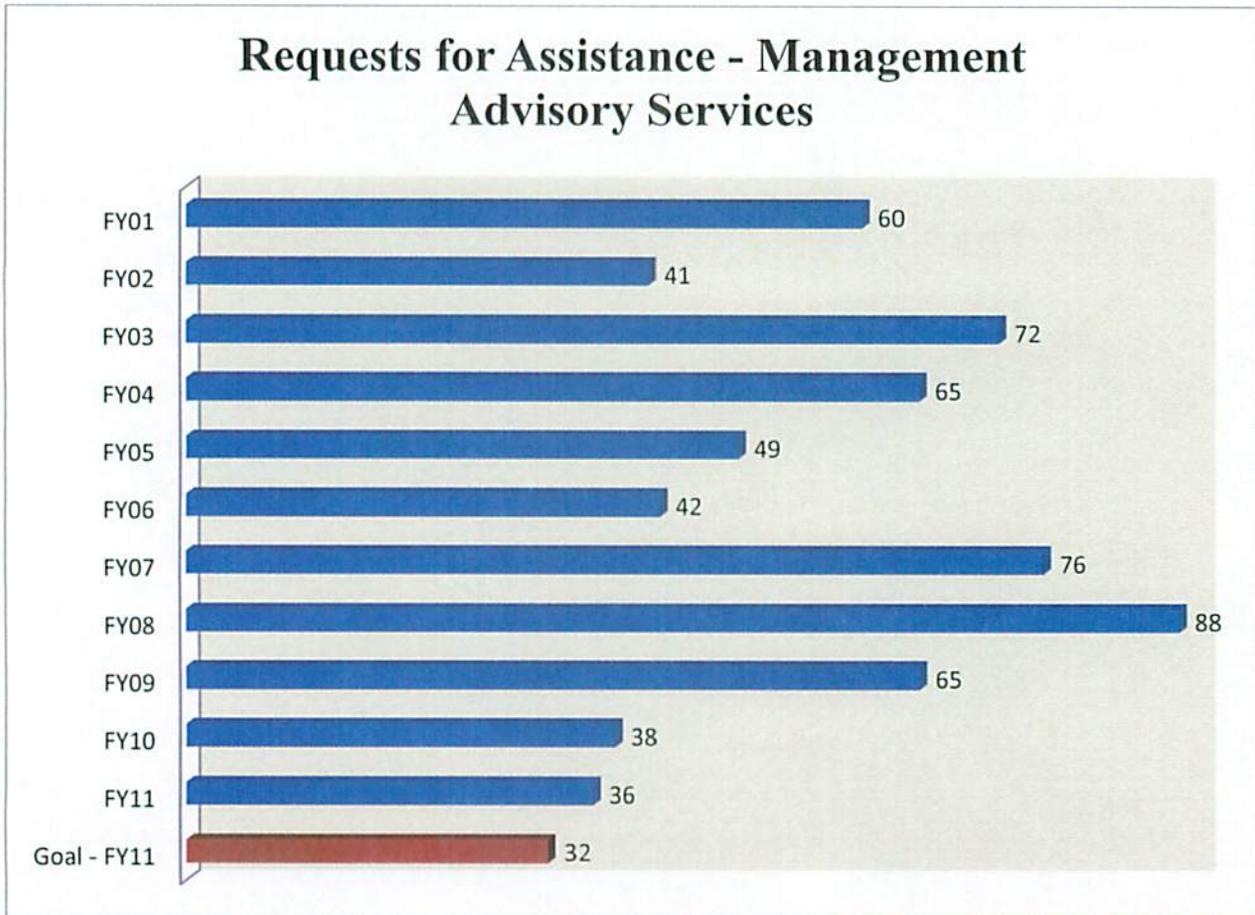


Twelve reports were finalized in FY11: six audits, three follow-ups, and three investigations. Staffing levels and complexity of projects have a direct effect on achieving this measure.

**12 REPORTS
FINALIZED IN
FY11**

PERFORMANCE MEASURES - CONTINUED

Output Measure: Work in partnership with departments by responding to requests for assistance related to compliance with City rules and regulations, process development, process improvement and re-engineering.



With 36 requests for assistance, OIA surpassed its goal of 32 requests in FY11. The office had significantly less staff than in prior years and several staff members were new. It takes time to establish relationships with City staff to receive requests for assistance. OIA adjusted the FY11 performance measure to reflect the reduced number of staff. OIA considers this goal to be one of our most important, as we encourage City departments to consider our office a resource for assistance and direction. This performance measure is a part of all employee work plans and emphasized in staff meetings throughout the year.

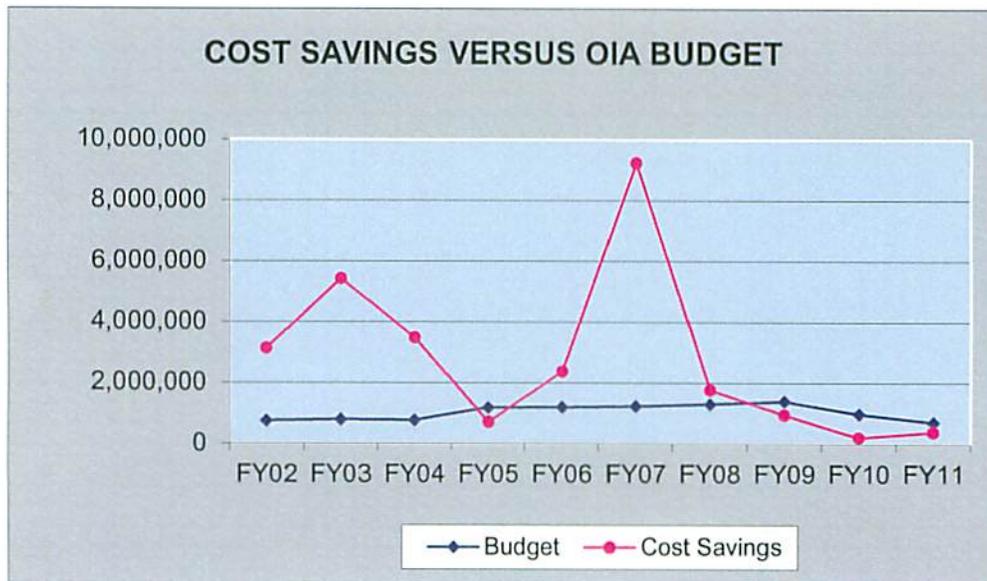


HELP!

PERFORMANCE MEASURES - CONTINUED

Quality Measure: Citywide saving, costs avoided, recoveries, and potential increases to revenues as a percentage of the OIA's approved final budget.

OIA made a conservative estimate of \$360,874 of nonrecurring and \$28,714 of recurring annual reductions in expenditures, avoided costs, recoveries and potential increases in revenues which the City could realize with the implementation of FY11 recommendations. See page 15 for detail of the savings. In addition, there were numerous recommendations made that will result in longer-term intangible benefits to the City through improved administration, better accountability and reduced potential liabilities.



Budget	Potential Cost Savings	
\$ 708,000	\$ 389,588	55%

The percentage of cost savings increases when compared to OIA's actual expenditures:

Actual Expenditures	Potential Cost Savings	
\$ 666,661*	\$ 389,588	58%

* Approximate (unaudited and unadjusted)

PERFORMANCE MEASURES – CONTINUED

Following is a detail of the \$389,588 in costs avoided or potential opportunities to recover City funds as a result of audits and investigations issued during FY11:

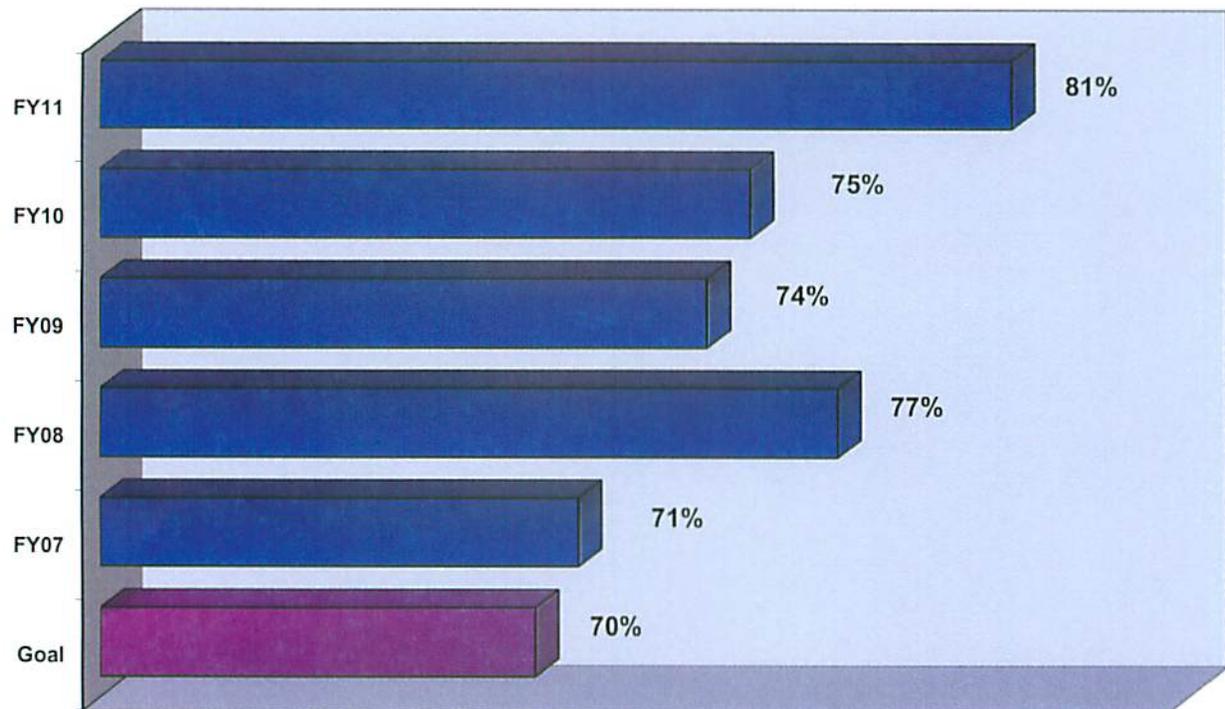
Audit No.	Audit Name	One-Time	Recurring
10-104	DMD - Parking Management Audit		\$ 130
10-107	DFCS - Social Service Contracts Audit	\$ 355,091	\$ 28,584
10-211	Fire Time Changes (Investigation performed by OIA)	\$ 5,783	
		\$ 360,874	\$ 28,714




389,588

PERFORMANCE MEASURES - CONTINUED

Quality Measure: Chargeable time compared to total time.



Chargeable time includes time coded to the following categories in the timekeeping system: Planning/Organizing, Fieldwork, Supervision/Review, Audit Completion, Continuing Education, Training, Professional Development, Miscellaneous Audit or Investigation Tasks, and Management Advisory Services. OIA reached its goal of 70% chargeable time in FY 2011.



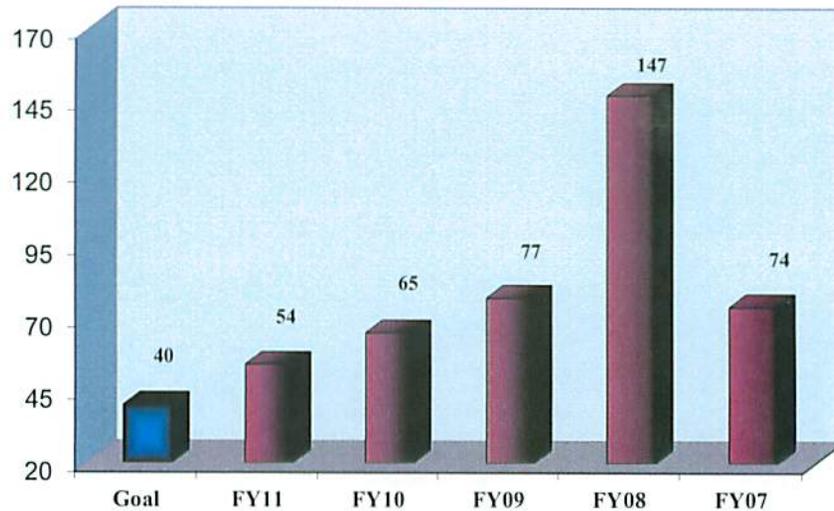
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PERFORMANCE MEASURES - CONTINUED

Quality Measure: Average number of training hours, per staff member, to ensure technical proficiency.

AVERAGE NUMBER OF CPE HOURS

GOALS
FOCUS



All of the certifications held by staff require a minimum number of continuing professional education (CPE) hours.

Government Auditing Standards require 80 hours of CPE every two years. At least 24 of the 80 hours must be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the entity operates.

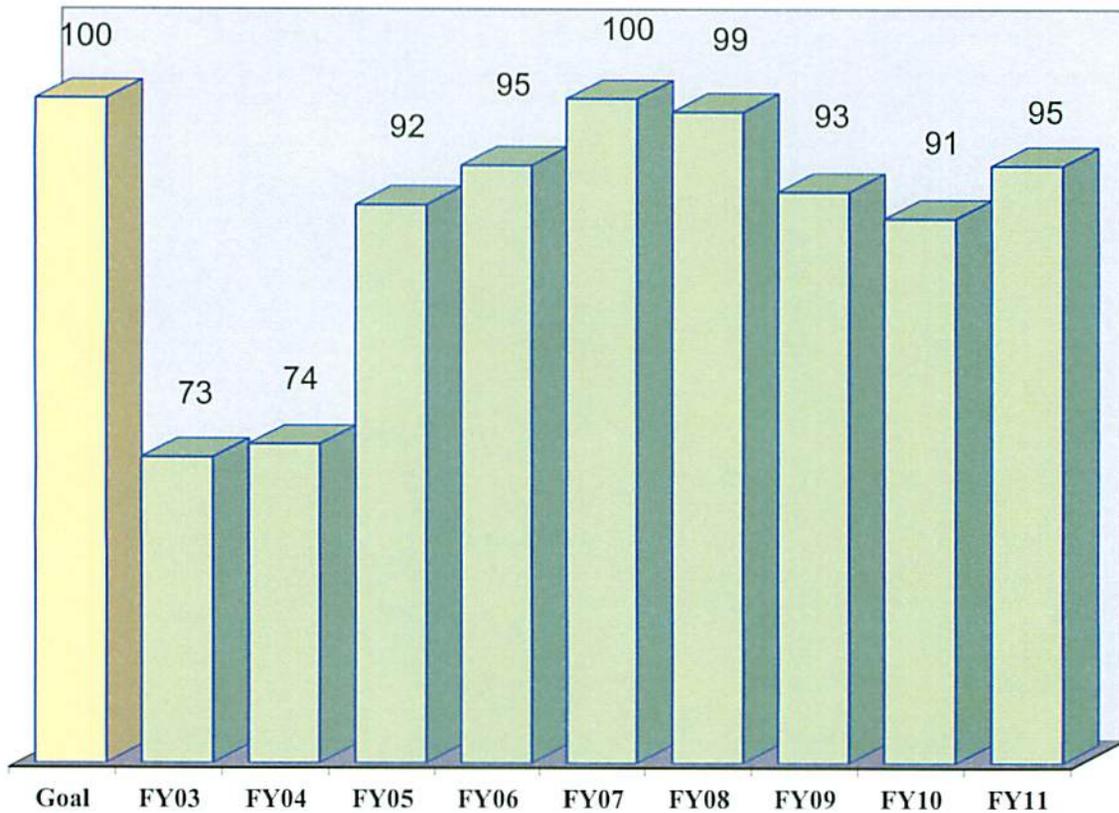
OIA staff received an average of 54 hours of CPE during FY11, exceeding the goal of 40 hours.



PERFORMANCE MEASURES - CONTINUED

Strategy Outcome: Improve the operational efficiency of departments through acceptance of audit recommendations. Operations will be improved if the audited departments and programs accept the recommendations made as valid and useful during the audit process.

% of Recommendations Accepted at Time of Audit

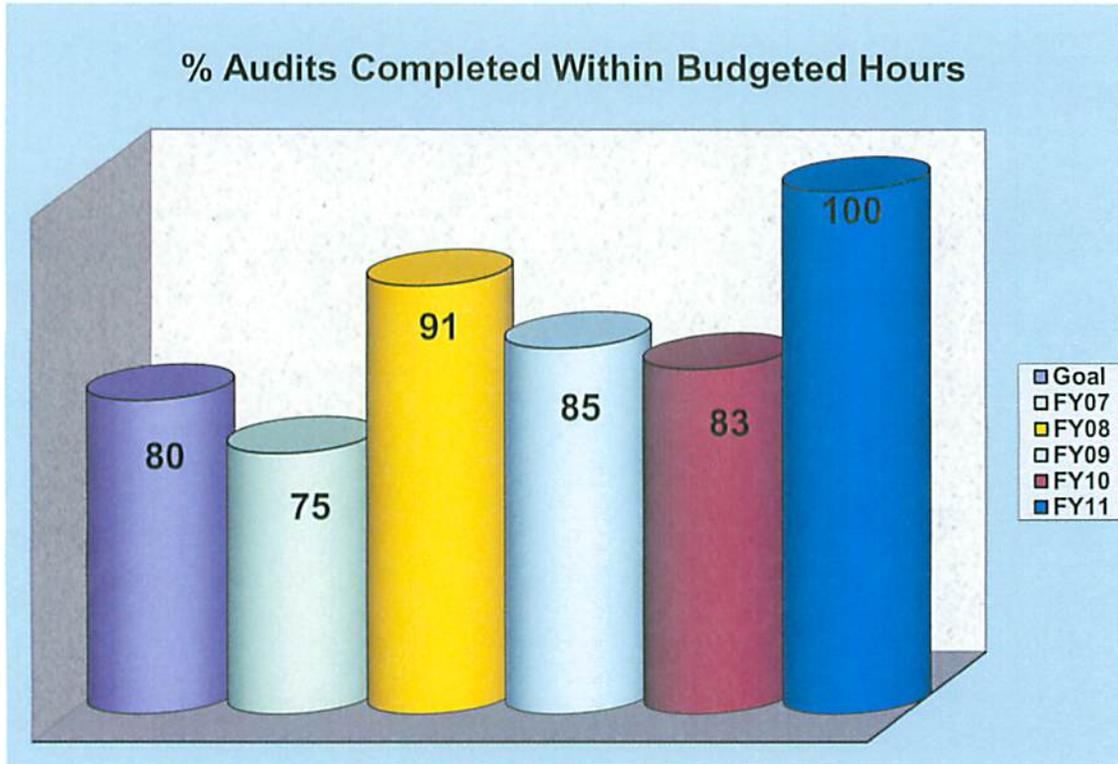


In FY11, 95% of recommendations were fully and partially accepted by the auditee. This performance measure is calculated by the concurrence of the auditee to the recommendations offered in our reports.

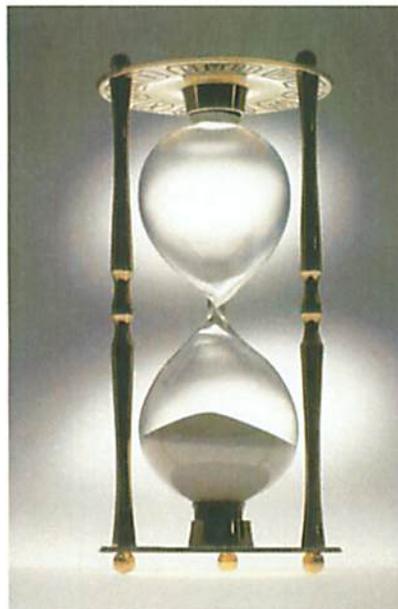


PERFORMANCE MEASURES - CONTINUED

Quality Measure: Percent of audits performed within the budgeted hours.

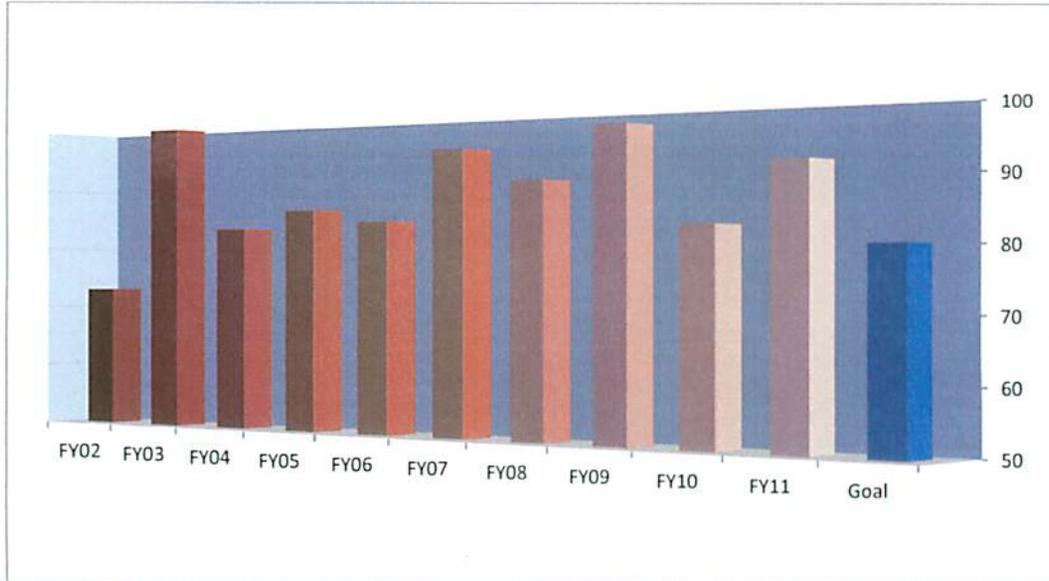


Time budgets are prepared for every audit assignment. Auditors are instructed to monitor their individual project budgets and request an increase, if necessary. In FY11, 100% of audits were completed within the budgeted hours.



PERFORMANCE MEASURES - CONTINUED

Quality Measure: Improve the efficiency and effectiveness of departments' operations through value added audit reports and recommendations. End of audit surveys include a question regarding the value added by the audit.



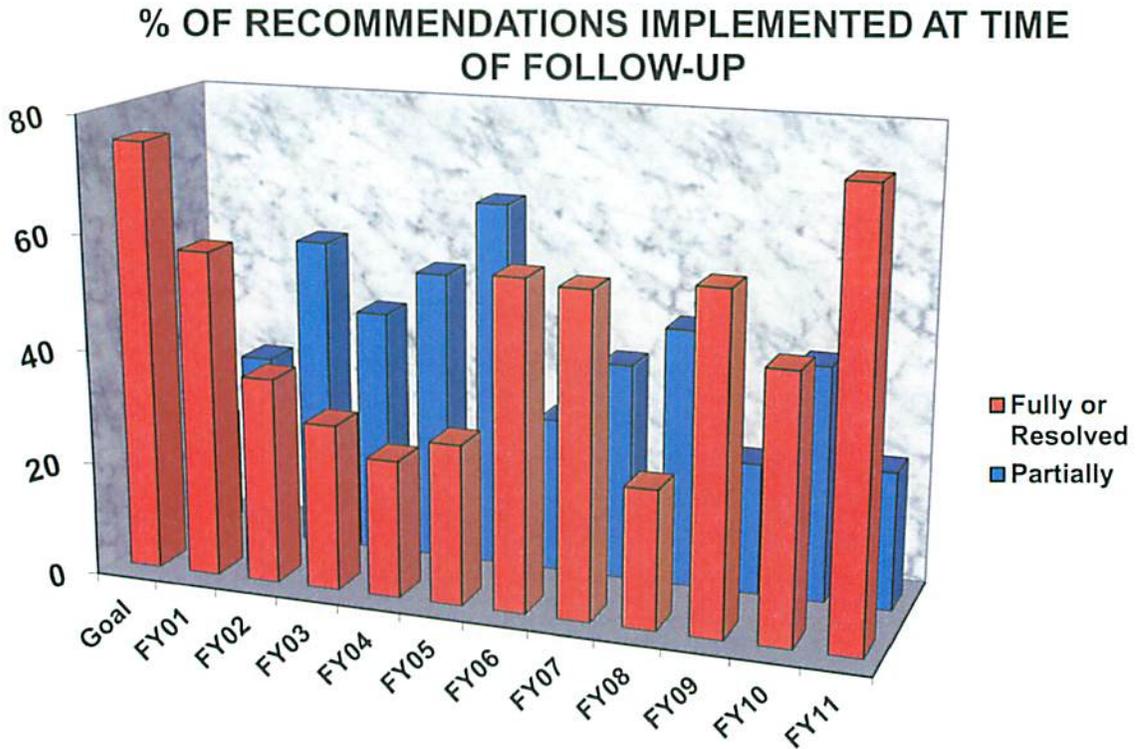
OIA asks all audited departments to complete end of audit surveys. Auditees are asked to rate the professional proficiency of the auditors, scope of work, performance of audit work, and the value of the audit reports. Ratings are on a one to five scale with five indicating "excellent."

In FY11, 92% of respondents felt the audit added value to their respective activity, program or department.

+ VALUE ADDED AUDITS +
+ VALUE ADDED AUDITS +

IMPLEMENTATION OF RECOMMENDATIONS

OIA strives to improve the operational efficiency of departments through their implementation of audit recommendations.



OIA conducted three Follow-ups in FY11. City departments had *fully* implemented or *resolved* 76% (goal is 75%) and *partially* implemented 24% (goal is 25%) of recommendations at the time of the follow-up.

The follow up process changed in FY11. OIA sends a memo to the department requesting the status of corrective action in regards to our findings and recommendations. The follow-up procedures rely on the information provided by the department. OIA then determines the status as fully implemented, resolved, partially implemented or not implemented. A draft of the report is sent to the department to ensure it is factually accurate prior to being sent to the AGO Committee for approval. OIA, as an independent entity, has no control over the implementation of recommendations. OIA reports this measure for informational purposes only.

Following is a detail of the status of recommendations from the Follow-ups conducted in FY11.

Recommendations Implemented

DEPARTMENT OF FAMILY AND COMMUNITY SERVICES
 HOUSING AUTHORITY FUND
 FOLLOW-UP NO. 11-06-109F
 ORIGINAL AUDIT DATE: 01/31/07
 FOLLOW-UP DATE: 04/27/11

Recommendation	Status of Finding
DFCS should provide additional training to staff responsible for tenant files to ensure the documentation included within the tenant files is complete, accurate and properly authorized.	
DFCS should provide additional ongoing training to staff responsible for tenant files, to ensure documentation included within the tenant files is complete, accurate and properly authorized.	
DFCS should provide additional training to staff responsible for the oversight of tenant files, to ensure the payments to receiving Housing Authorities are terminated and overpayments are promptly reimbursed once the portable families are absorbed by the receiving Housing Authorities.	

ALBUQUERQUE FIRE DEPARTMENT
 QUARTER CENT PUBLIC SAFETY TAX
 FOLLOW-UP NO. 11-07-104F
 ORIGINAL AUDIT DATE: 02/27/07
 FOLLOW-UP DATE: 04/27/11

Recommendation	Status of Finding
Fire should revise its internal purchasing forms to identify Quarter Cent purchases and establish sub-activities for all activities that expend Quarter Cent monies.	
Fire should update and periodically review its Purchasing Procedures.	
The Fiscal Section of Fire should consider additional performance measures that assess quality of operations.	

 Fully Implemented  Resolved  Partially Implemented  Not Implemented

IMPLEMENTATION OF RECOMMENDATIONS - CONTINUED

**PURCHASING CARD PROGRAM
FOLLOW-UP NO. 11-07-107F
ORIGINAL AUDIT DATE: 09/20/07
FOLLOW-UP DATE: 11/05/10**

Recommendation	Status of Finding
DFAS should monitor purchases for transactions that do not comply with Policies and Procedures (P&P).	
DFAS should revise the P&P that govern the reconciliation process.	
The CAO should ensure all P-Card parameters comply with P&P.	
The CAO should ensure departments submit the Maintenance Form for cancellation or replacement of a P-Card. Justification should be submitted for replacement of a P-Card due to loss or theft.	
DFAS should require EAGLS maintenance forms and justification documentation for P-Card cancellation and replacement.	
The CAO should ensure departments promptly notify the P-Card administrator when gross receipts tax has been paid so a non-taxable certificate can be issued.	
DFAS should update P&Ps to include specific instruction and guidelines for reviewing, granting, and documenting P-Card purchase overrides.	
DFAS should develop and implement a schedule to regularly review and update P&Ps.	
DFAS should regularly schedule P-Card coordinator training and implement a system to document attendance.	
DFAS should reconcile monthly automatic P-Card payments to the P-Card statement, and clarify discrepancies with the Bank of America.	
DFAS should perform an annual card use analysis.	
DFAS should review and update the performance measure related to the P-Card program.	
DFAS should review the annual rebate for accuracy and consistency.	
The CAO should ensure departments review P-Card transactions to identify patterns of recurring purchases that could potentially be set up as a contract.	
The Council Services Department should review P-Card transactions to identify patterns of recurring purchases that could potentially be set up as a contract.	

 Fully Implemented
  Resolved
  Partially Implemented
  Not Implemented

STAFF

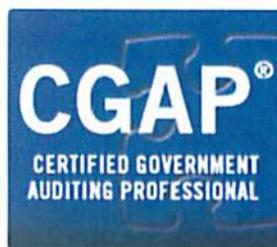
There were six full-time budgeted positions in the OIA program strategy for FY11. Several staffing changes occurred during the year. One position was restored during the FY12 budget process.



STAFF – CONTINUED

OIA staff members are well qualified and hold numerous professional certifications including:

- (3) Certified Public Accountants (CPA)
- (2) Certified Internal Auditors (CIA)
- (2) Certified Information Systems Auditors (CISA)
- (1) Certified Government Auditing Professional (CGAP)
- (1) Certified Fraud Examiner (CFE)
- (1) Certified Information Technology Professional (CITP)



The staff is active in numerous professional organizations including:

- The Institute of Internal Auditors (IIA)
- The Association of Local Government Auditors (ALGA)
- The Association of Certified Fraud Examiners (ACFE)
- The Information Systems Audit and Control Association (ISACA)
- The American Institute of Certified Public Accountants (AICPA)
- The New Mexico Society of Certified Public Accountants (NMSCPA)



STAFF – CONTINUED

Carmen L. Kavelman – Director

Carmen has worked for OIA since 1993. Carmen has over 20 years of auditing experience. Prior to her tenure with the City, she worked for the New Mexico State Auditor's Office as an auditor and the University of New Mexico Bookstore as the Accounting Manager. She also spent three years in public accounting. Carmen graduated from the University of New Mexico, Anderson School of Management with a Bachelors of Business Administration. Carmen is a CPA, CISA and CGAP. Carmen serves on the FY10/11 IIA – Albuquerque Chapter Board of Governors, as Treasurer, and serves as a member of the Central New Mexico Community College Accounting & Business Administration Advisory Committee.

Lynette L. Fridley – Internal Auditor

Lynette graduated with a Bachelors of Business Administration degree from Tiffin University in Tiffin, Ohio. Lynette has over 14 years of auditing experience, including six years in public accounting, where she primarily audited governmental entities. She became a CPA in 2001 and a CIA in 2010. Lynette has been with the OIA since 2004. She was a Principal Auditor and Budget Auditor prior to becoming the Internal Auditor in 2006. Lynette serves on the FY11/12 board for the Albuquerque Chapter of the New Mexico Society of CPAs.

Alan R. Gutowski – Senior Information Systems Auditor

Alan is the Senior Information Systems Auditor for the OIA. Alan has over 14 years of audit experience working in both the government and private sectors. He has also worked in the public accounting profession. Alan also has over 6 years of financial accounting experience in both the banking and healthcare industries. He received his bachelor of business administration with a concentration in accounting from the University of New Mexico – Robert O. Anderson School of Business. Alan is a CPA licensed in the State of New Mexico. He is also a CISA, CITP, CFE and CIA. Alan is a member of the Association of Local Government Auditors and serves on the peer review committee. He is also a member of and serves on the local boards of both the Albuquerque IIA and New Mexico ISACA chapters. Alan served on the Albuquerque Public Schools Audit Committee from 2006 through 2010.

STAFF – CONTINUED

Lawrence Davis – Principal Auditor/Investigator

Lawrence has over seven years of audit and accounting experience. He has a diverse background from both private and public sectors. He received his undergraduate degree from the University of New Mexico – Robert O. Anderson School of Management with a concentration in accounting and is currently pursuing his Masters of Business Administration. Lawrence previously worked for the performance evaluation unit of the New Mexico Legislative Finance Committee.

Vicky M. DeHerrera – Internal Audit Assistant

Vicky has worked for the City of Albuquerque for over 29 years. Vicky began her City career with the Public Works Department - Traffic Engineering and then worked for the Fire Marshal's Office in the Albuquerque Fire Department. From 1987 to 1995, Vicky was the Administrative Assistant for OIA. She then worked in the Fiscal Section of the Family and Community Services Department for nine years. Vicky returned to the OIA in 2004 as the Internal Audit Assistant.



ACCOUNTABILITY IN GOVERNMENT OVERSIGHT (AGO) COMMITTEE

§2-10-5 of the Accountability in Government Ordinance creates the Accountability in Government Oversight (AGO) Committee. The AGO Committee is a management committee, not a public board or commission, and is not subject to the Open Meetings Act. The Committee does not formulate public policy. The Committee's primary function is to approve audit and investigation reports.

The AGO Committee consists of five members from the community at large. The Mayor and one City Councilor, appointed annually by the City Council President, are nonvoting ex-officio members. The Mayor and the appointed City Councilor send designees to the Committee meetings. The Accountability in Government Ordinance requires at least one member be a CPA, one have a law enforcement or law background and one Committee member be a professional management consultant.

As vacancies on the AGO Committee occur, the City Council and Mayor will alternatively appoint new members. All appointments are subject to City Council approval. The AGO Committee members are appointed for staggered terms of three years unless an appointment is to fill a vacancy.

As of June 30, 2011, the AGO Committee was comprised of the following members:

Name	Term Expires	Representative
Gerald T. Kardas, CPA	9/1/2013	CPA
Patricia Caristo, NMLPI	9/1/2013	Law
Jean Strosinski	9/1/2011	Management
Harry L. Tipton (Chair)	9/1/2012	At-large
Craig G. Colter	9/1/2012	At-large





Association of Local Government Auditors

September 16, 2010

Carmen L. Kavelman, Director
Office of Internal Audit and Investigations
City of Albuquerque
P.O. Box 1293
Albuquerque, NM

Dear Ms. Kavelman,

We have completed a peer review of the Office of Internal Audit and Investigations, City of Albuquerque for the period July 1, 2007 through June 30, 2010. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Office of Internal Audit and Investigations, City of Albuquerque internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period of July 1, 2007 through June 30, 2010.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Wendy Simeon
City Auditor's Office
Phoenix, AZ

Martin Petherbridge
Internal Audit
Raleigh, NC

Martha Prinz
Office of the City Auditor
Portland, OR



Association of Local Government Auditors

September 16, 2010

Carmen L. Kavelman, Director
Office of Internal Audit and Investigations
City of Albuquerque
P.O. Box 1293
Albuquerque, NM

Dear Ms. Kavelman,

We have completed a peer review of the Office of Internal Audit and Investigations (OIAI), City of Albuquerque for the period July 1, 2007 through June 30, 2010 and issued our report thereon dated September 16, 2010. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- Management established a continuous and thorough evaluation of the possible effect of non-audit services could have on independence.
- Auditors demonstrate a thorough understanding of department policies and procedures.
- Audit report findings are properly supported in well-organized workpapers.
- Management and staff exhibit a high level of dedication and professionalism.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

The Office has a procedure for retention of hard copy audit files. However, GAS 7.82 requires that audit organizations establish policies and procedures related to retention of electronic audit documentation. The standard also requires the organization to establish procedures for the safe custody of audit documentation, including personally identifiable information. We recommend that your policies and procedures be updated to address this requirement.

The Office requires completion of a planning memo to document objective, scope, methodology, prior audit consideration, and communication with management. Based on our review, a planning memo was not completed for follow-up audits. To ensure compliance with GAS 7.06, auditors must adequately plan and document the planning of the work necessary to address the audit objectives.

In addition, we noted that communication with management was not documented for follow-up audits, as required by GAS 7.46, which requires that auditors communicate an overview of

the objectives, scope, and methodology, and timing of the performance audit and planned reporting to management.

The office maintains a CPE tracking schedule to monitor CPE hours for both full and partial year employees. However, we noted partial year employee hours were prorated on a monthly basis. GAO-05-568G #12 requires that CPE hours be prorated based on the number of full six-month intervals remaining in the CPE period.

Additionally, GAO-05-568G #18.a requires auditors to obtain 24 hours of CPE in subjects and topics directly related to the government environment. We noted courses classified as governmental did not include a course description documenting how the course was applicable to the government environment. We recommend that CPE monitoring procedures be updated to comply with GAO standards.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Wendy Simeon
City Auditor's Office
Phoenix, AZ



Martin Retherbridge
Internal Audit
Raleigh, NC



Martha Prinz
Office of City Auditor
Portland, OR



City of Albuquerque

Office of Internal Audit and Investigations
P.O. BOX 1293, ALBUQUERQUE, NM 87103

September 16, 2010

Wendy Simeon
Peer Review Team Leader
City of Phoenix
City Auditor's Office

Dear Ms. Simeon:

Thank you for your external quality control review report dated September 16, 2010. We are pleased with your opinion that the Office of Internal Audit and Investigations is in full compliance with Government Auditing Standards during the period July 1, 2007 through June 30, 2010.

We appreciate the review team's efforts to recognize areas in which our office excels. We also appreciate the review team's suggestions to enhance our organization's demonstrated adherence to Government Auditing Standards. We concur with the suggestions offered and we will implement changes to improve our procedures.

We will update our process for the retention of audit files to address electronic audit documentation. We will review our follow-up process to ensure compliance with Government Auditing Standards. We will ensure CPE documentation complies with GAO standards.

Our office is committed to continuously improving our audit processes. We appreciate the professionalism and time and effort you devoted to help us become a top-quality audit organization.

Sincerely,

Carmen L. Kavelman, CPA, CISA, CGAP
Director

Citizens' Independent Salary Commission

Report and Recommendations

Executive Summary

As a result of the Regular Municipal Election on October 6, 2009, voters established the Citizens' Independent Salary Commission. The Commission was created and charged with the task of studying and setting the salaries of the Mayor and City Councilors.

The five member Commission deliberated a total of 77.4 hours to produce this report and recommendations with the assistance of staff support of about 275 hours. The Commission has determined that City Councilor members will receive an annual salary of \$17,500 beginning with the Councilors elected in 2011, with an additional \$2,000 for the president. The Commission believes the Mayor's salary is not consistent with the average compensation of a chief executive officer for a \$500 million corporation with 6,000 full time employees. However, the Commission believes the wage provided the mayor is adequate at this time.

Charter Amendment

Through the charter amendment, the Commission was given the authority to evaluate the annual salaries and determine whether they should be increased or decreased. The Commission has authority to consider all factors relevant to the salaries. Parameters given to the Commission are as follows:

- (a) The Commission shall consist of five members selected by the Accountability in Government Committee. All members shall be residents of the City of Albuquerque and shall not be an officer, official or employee of the city or an immediate family member of the same. The term of each member shall be for four years, unless a member is selected to fill a vacancy, and no member shall be appointed to more than two terms. The initial terms of members of the newly established Commission shall be staggered; the initial term for two members shall be two years and the initial term of three members shall be four years.
- (b) At least one year prior to each regular municipal election, the Commission shall review the salaries paid by the city to the Mayor and Councilors. If after such review the Commission determines that the salary should be increased or decreased, the Commission shall file a written salary schedule with the City Clerk indicating the proposed salary.
- (c) Changes to the salaries shall not be effective for the incumbent Mayor and Councilors, but shall be effective at the beginning of the next term.
- (d) Any change to salaries recommended by the Commission shall be subject to the referendum procedures as provided for in Article III, Section 2 of the Charter.
- (e) All meetings of the Commission shall be open to the public and subject to the Open Meetings Act, Sections 10-15-1 et seq. NMSA 1978.

Commission Members

The Accountability in Government Oversight Committee appointed the following people to serve on the Commission:

Name	Term End Date
John A. Carey, Chairperson	2014
Joe Conte	2014
Ellen Driber-Hassall	2012
Dick Heath	2014
Kenneth Petruilis	2012

As specified in its charter, the commission was selected through a process established by the Accountability in Government Committee. Members have no ties or conflicts with the City of Albuquerque, the Mayor or Council. The Commission carefully approached its work with a thoughtful approach to research and the utmost transparency.

Neither the Mayor nor Council has requested a pay increase. All acknowledged knowing the salary for the positions prior to seeking election and chose to do so for many reasons other than the salary.

The Commission sought public input through two public and media forums and through an interactive website that allows for public comment. All Commission meetings were open to the public.

At its initial meeting, the Commission established the criteria by which it would render its recommendations that included current salary information, duties of office and comparisons with similarly situated cities. The Commission did not consider benefits or other forms of compensation, only salaries.

Salary Information

Presently, the Mayor of Albuquerque is paid \$103,854 annually. This reflects a voluntary five percent (5%) pay decrease sought by the mayor in 2010. City Councilors are paid a salary of 10 percent (10%) of the Mayor's salary, which is currently \$10,940 annually for each Councilor and \$21,881 for City Council President.

These combined salaries account for less than one-half of one percent of the overall City budget (0.0456%). The Mayor and Council receive the same cost of living allowance as city employees. The 10 percent (10%) formula as related to the Mayor's salary has not been adjusted for Council members since 1974.

Duties of Office

The Commission studied the requirements of both the Mayor and City Councilors' positions. The Commission developed a questionnaire to seek information regarding typical daily and weekly functions, the amount of time devoted, and motivation for seeking office. The amount of time devoted varies among Council members; however, on average it seems to require about 30 hours per week. The Mayor's position is more than a regular 40-hour week. The Commission met with Councilors from various parts of the City, as well as with the Mayor and the City's Chief Administrative Officer. The Commission also interviewed various Council staff to seek input on job duties. Since the original charter of 1974, the Commission is convinced that the duties of office have evolved and increased over time.

Comparable Cities

- The Commission determined that it would be useful to review the available salary information for cities that are both similar in population, employee count, budget and geography for purposes

The following graphic illustrates the geographic dimensions of cities studied and the subsequent spreadsheet demonstrates how Albuquerque compares to reasonably similar cities.

Comparison of Regional Cities

City	FTE Employees	Population [2008 Census Bureau]	Form of Government (Mayor - Council or Council - Manager)	Annual Operating Budget (FY11 or most current FY)	Mayor Salary	Council Salary
Albuquerque NM	5,926	521,199	Mayor - Council	455,534,000	\$103,854	Council member: \$10,379; Council President: \$20,758
Austin TX	12,736	786,386	Council - Manager	650,200,000	\$78,425	\$67,556
Denver CO	10,369	598,707	Mayor & Council	864,124,800	\$145,601	Council member: \$78,173 Council President: \$87,539
El Paso TX	6,194	613,190	Council - Manager	693,060,294	\$45,000	\$29,000
Kansas City MO	6,769	488,299	Council - Manager	1,230,443,937	\$123,156	\$61,569
Las Cruces, NM	1,332	93,452	Council - Manager	317,900,000	\$73,892	\$29,569
Las Vegas NV	2,952	558,383	Council - Manager	528,400,000	\$65,248	\$49,000
Mesa AZ	3,597	463,552	Council - Manager	943,709,000	\$76,003	\$38,064
Oklahoma City OK	4,327	551,789	Council - Manager	875,926,956	\$24,000	\$12,000
Salt Lake City, UT	2,781	183,102	Mayor - Council	758,956,285	\$114,145	\$22,829
Tucson AZ	5,419	541,811	Council - Manager	994,108,390	\$42,000	\$24,000
Tulsa OK	3,957	385,635	Mayor - Council	518,532,000	\$105,000	\$18,000



Recommendations

After careful and transparent study, the Commission establishes that City Councilor members will receive an annual salary of \$17,500 beginning with the Councilors elected in 2011, with an additional \$2,000 stipend for the Council President. The Commission believes the Mayor's salary is not consistent with the average compensation of a chief executive officer for a \$500 million corporation with 6,000 full time employees. However, the Commission believes the wage provided the mayor is adequate at this time. As the Commission is an ongoing working group, it will continually consider salaries for the Mayor and Council.

It became quite clear early on in the Commission's deliberations that Council members are required to devote a vast majority of their time to Council business. Attending Council meetings, public gatherings, constituent relations and research for meetings is a significant undertaking. The Commission considered the impact of the time commitment on one's ability to serve as a Councilor. The current structure appears to allow only certain types of citizens to seek office.

For example, at a salary of just under \$11,000 annually, most City residents would not be able to seek this office without having other means of support. Individuals with families who have full time employment would simply not be able to leave their "day job" to serve as a Councilor.

The current pay for a City Councilor is less than that of a high school student working in a pizza parlor at under \$7 per hour. The role of a City Councilor in this major metropolitan area is a very strategic role that affects the daily lives of 521,199 citizens in a governmental entity with almost 6,000 employees with a budget of almost half a billion dollars. It is imperative that Albuquerque's elected Councilors be remunerated in a manner compatible with attracting the very best candidates and office holders. In today's world, the position demands essentially a full time effort and a highly skilled individual.

The Commission discussed this issue at length. It determined that for Council to truly represent the public it serves, an adequate salary is essential to attract those who are both *willing* and *able* to serve. To attract diverse, representative cross-section City residents, the Commission believes this increase is essential.

While current members were aware of the salary as they sought office, the Commission believes the requirements of the position dictate that future Council members deserve increased compensation. It is important to note that this salary structure will not take effect until the next Council is elected in 2011. No currently elected Councilor has sought a salary increase from the Commission.

With an increase to Council salaries to \$17,500, with an additional \$2,000 for the president, the total budget for the mayor and council is less than one-half of one percent of the overall city budget.

Summary

The citizens of Albuquerque elected to establish the Citizens' Independent Salary Commission. The Commission studied the roles of Councilor and Mayor, sought input from the public and studied like-sized municipalities in determining this outcome. As the Commission continues its work, it will also continue to seek input from interested persons.

In conclusion, the Commission thanks the Mayor and the Council for their dedicated service to the City of Albuquerque and its people.

Exhibits www.cabq.gov/audit/citizens-independent-salary-commission

Charter
Sample Questionnaire
Meeting Minutes