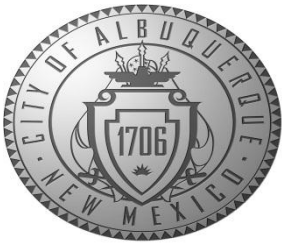


**City of Albuquerque  
Office of Internal Audit**



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



**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:

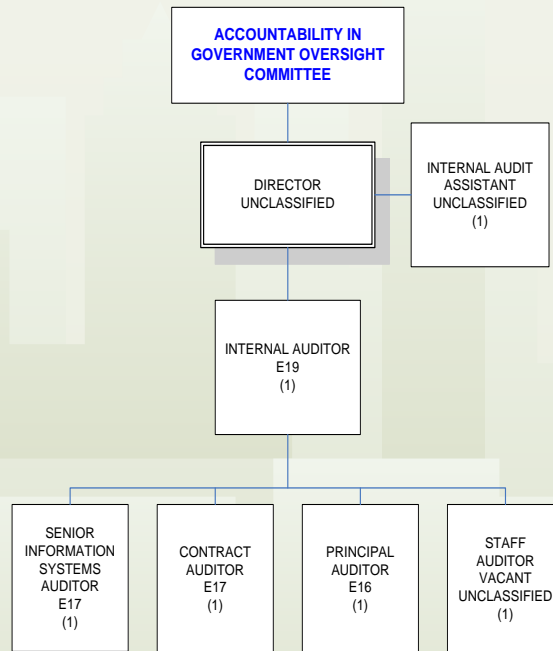
*Using existing staff and available resources, conduct a follow-up study to determine the advisability of contracting the internal audit function to an outside vendor. Increase the number of cities to be surveyed to a minimum of twenty. A minimum of 40% of the cities surveyed should use an external auditor 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**

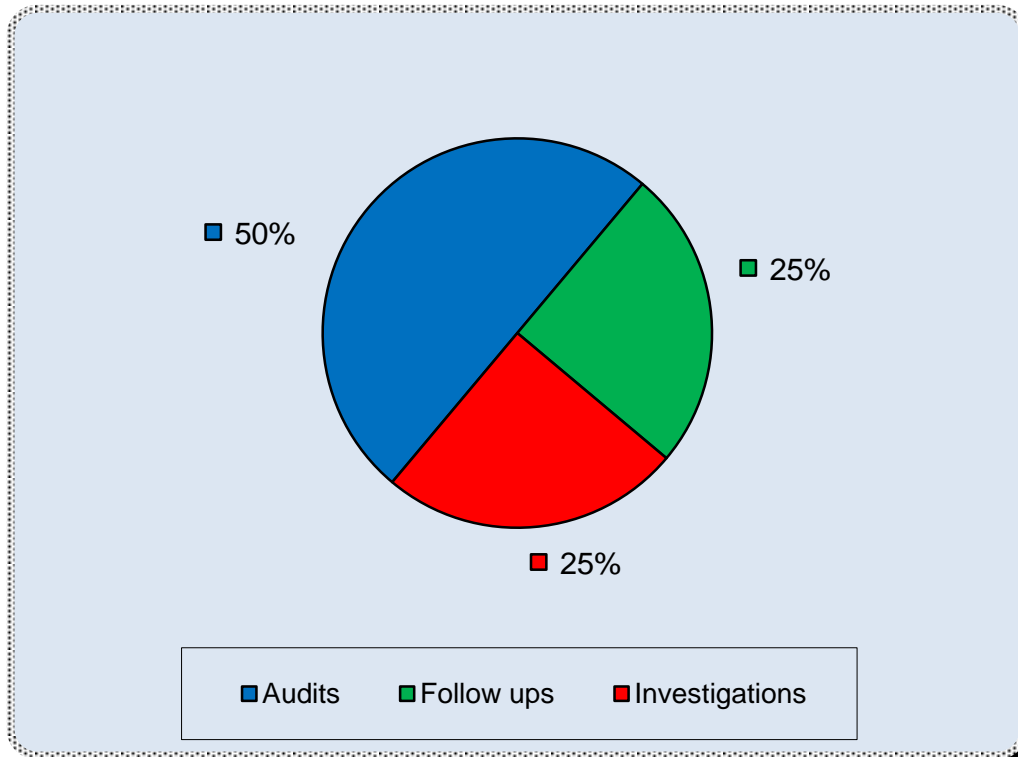


## REPORTS

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



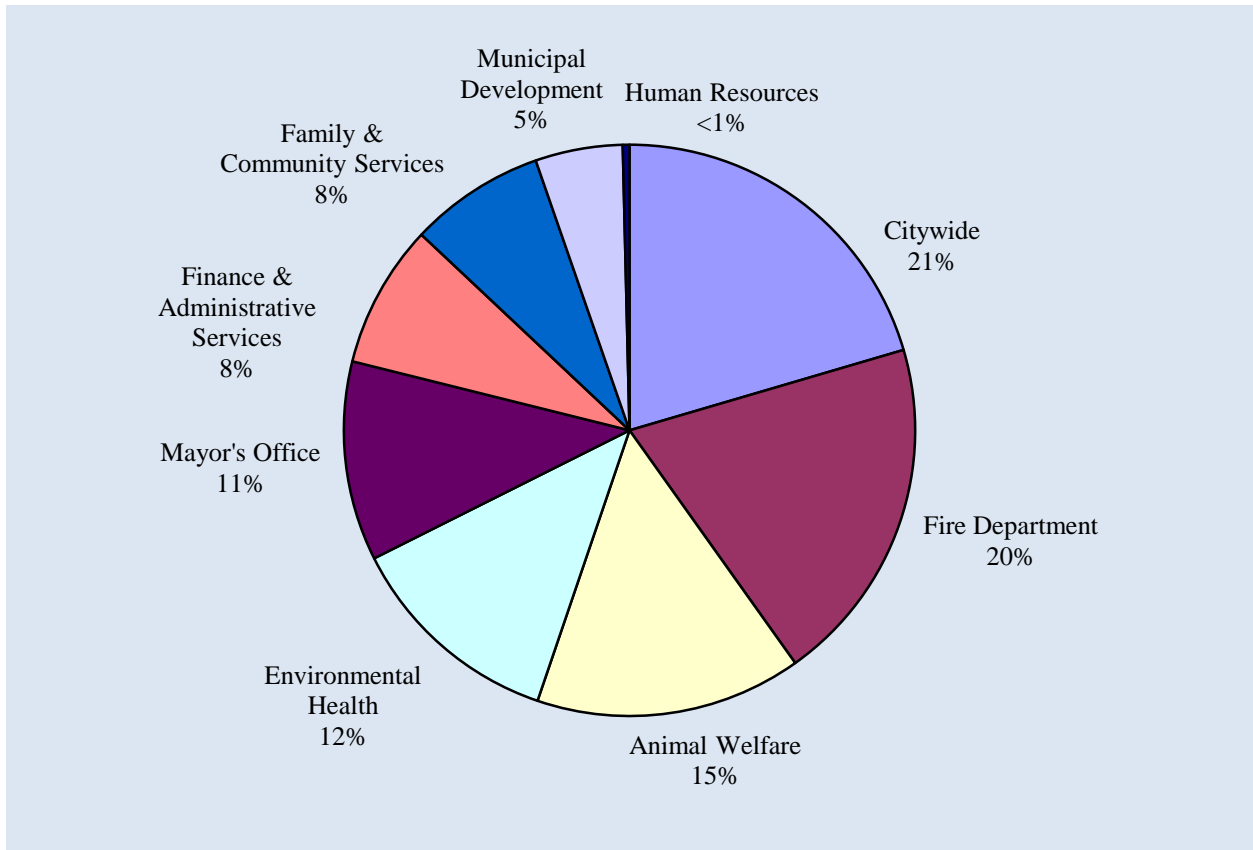
# Reports Approved in FY10

<b>Date</b>	<b>Number</b>	<b>Name</b>	<b>Type</b>
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)***

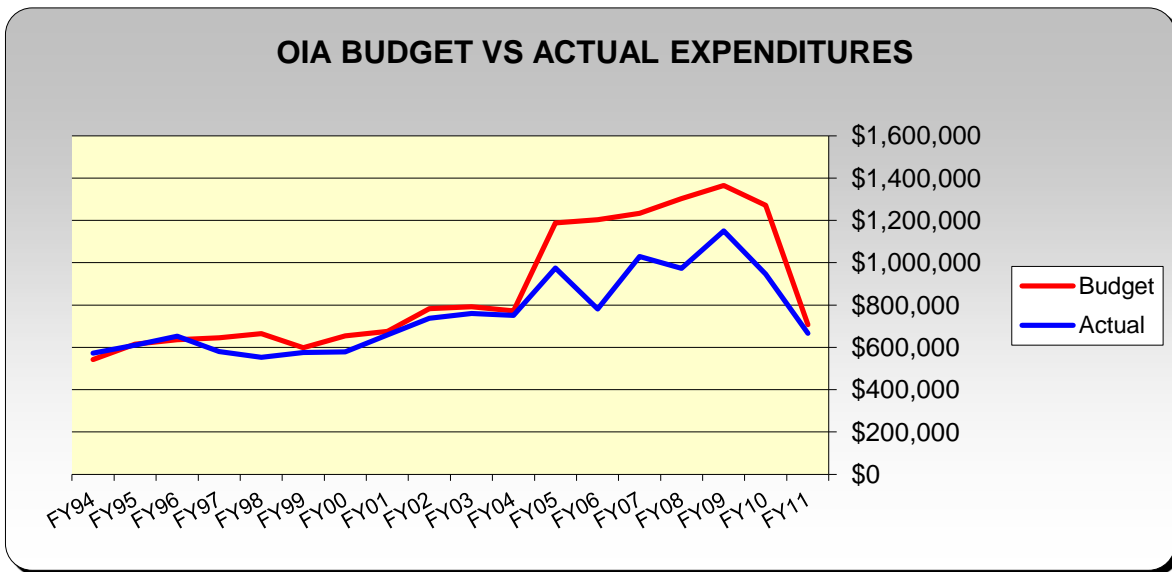
The Senior IS Auditor started participating in the ITIL certification process on June 15, 2011. His goal is to be ITIL certified by September 30, 2011. ITIL provides a practical, no-nonsense framework for identifying, planning, delivering and supporting IT services to the business. The policies, procedures,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

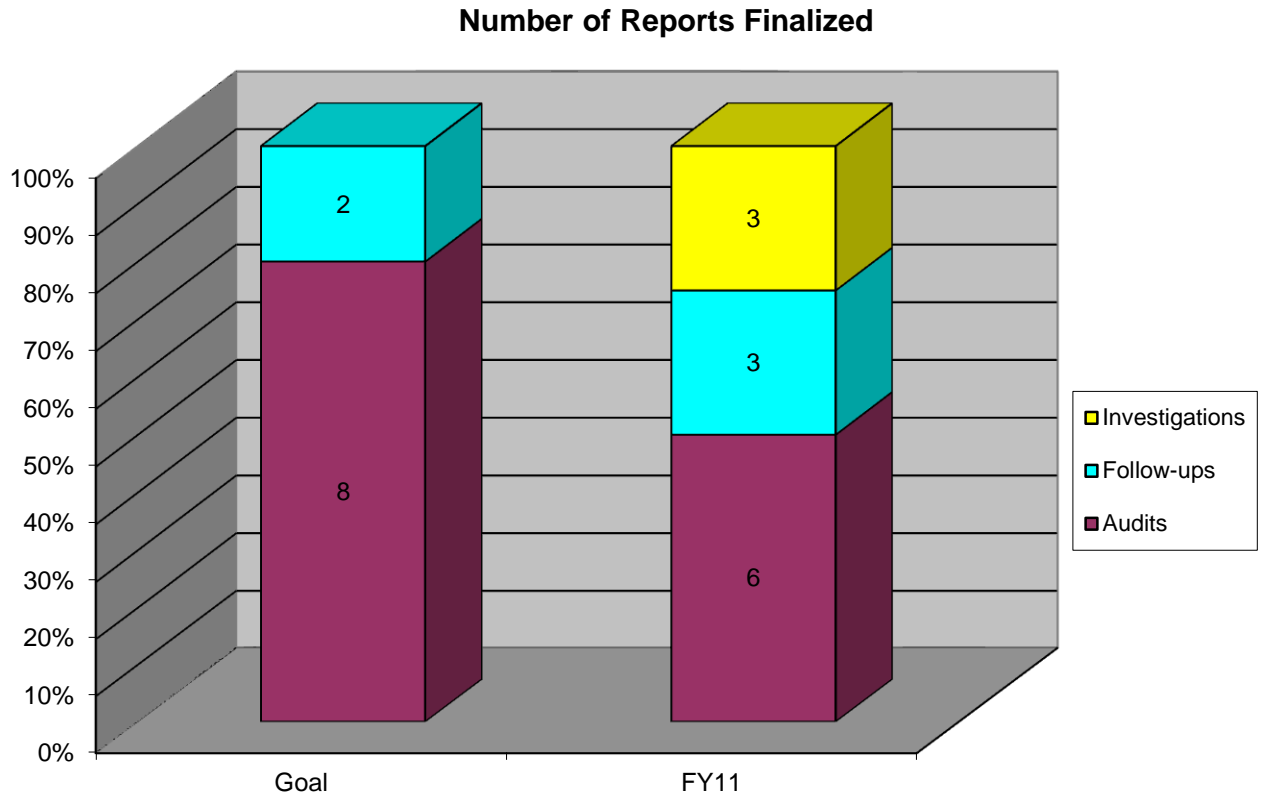
The OIA Program Strategy is a part of the City's Goal 8, *Government Excellence and Effectiveness.*



## 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.

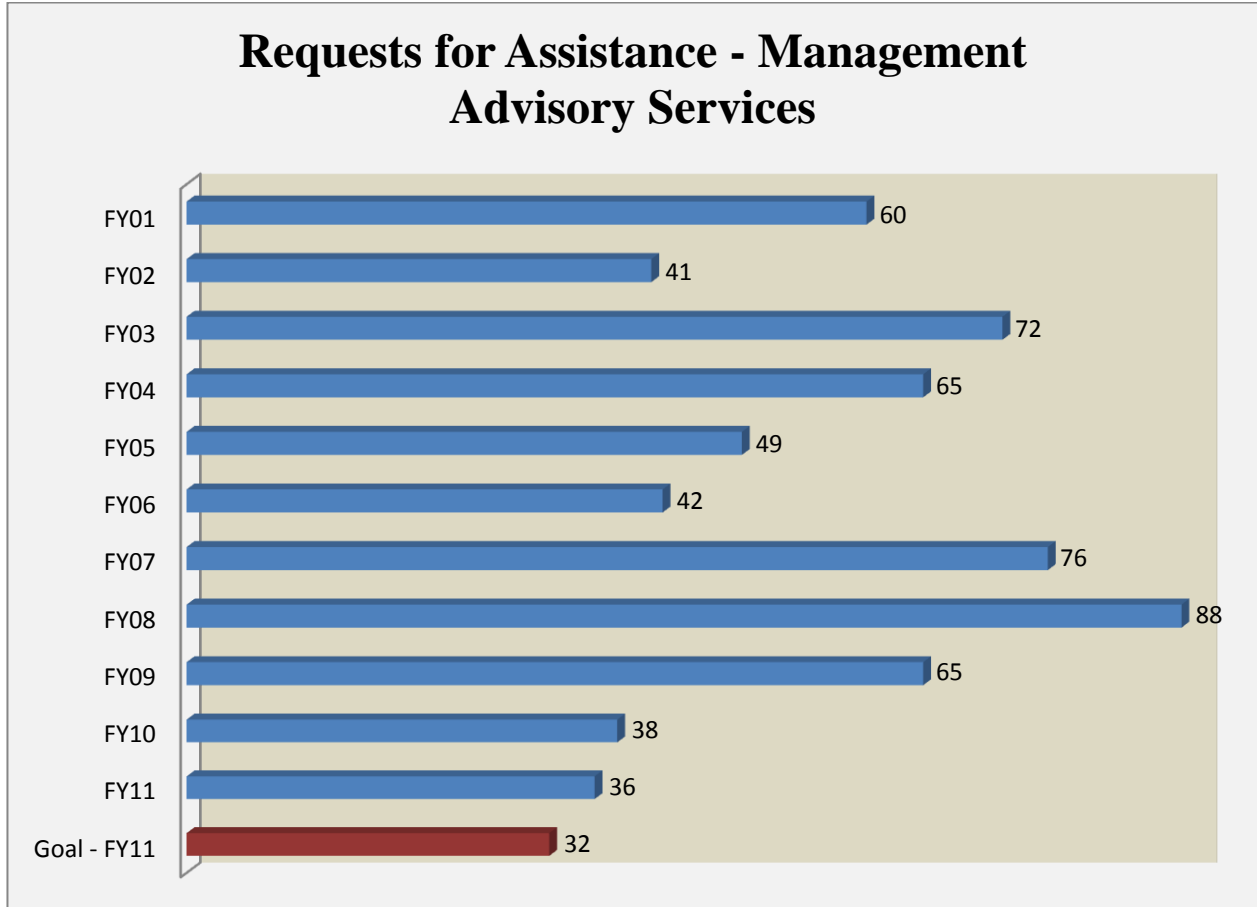


Twelve reports were finalized in FY11: six audits, three follow-ups, and three investigations. Staffing levels and complexity of projects have a direct effect on achieving this measure.

**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.

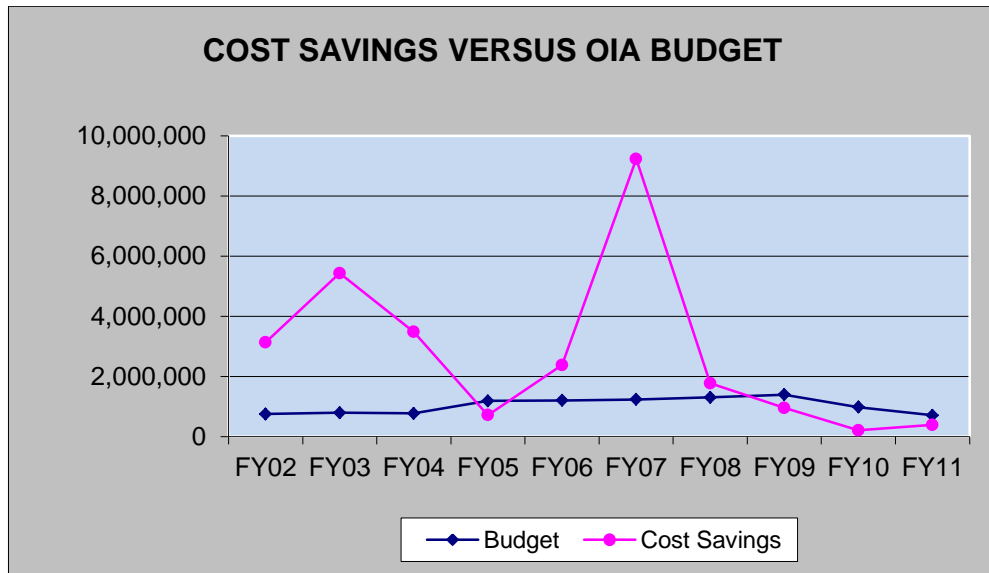


# HELP!

## 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	55%
\$ 708,000	\$ 389,588	

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

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

\* 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:

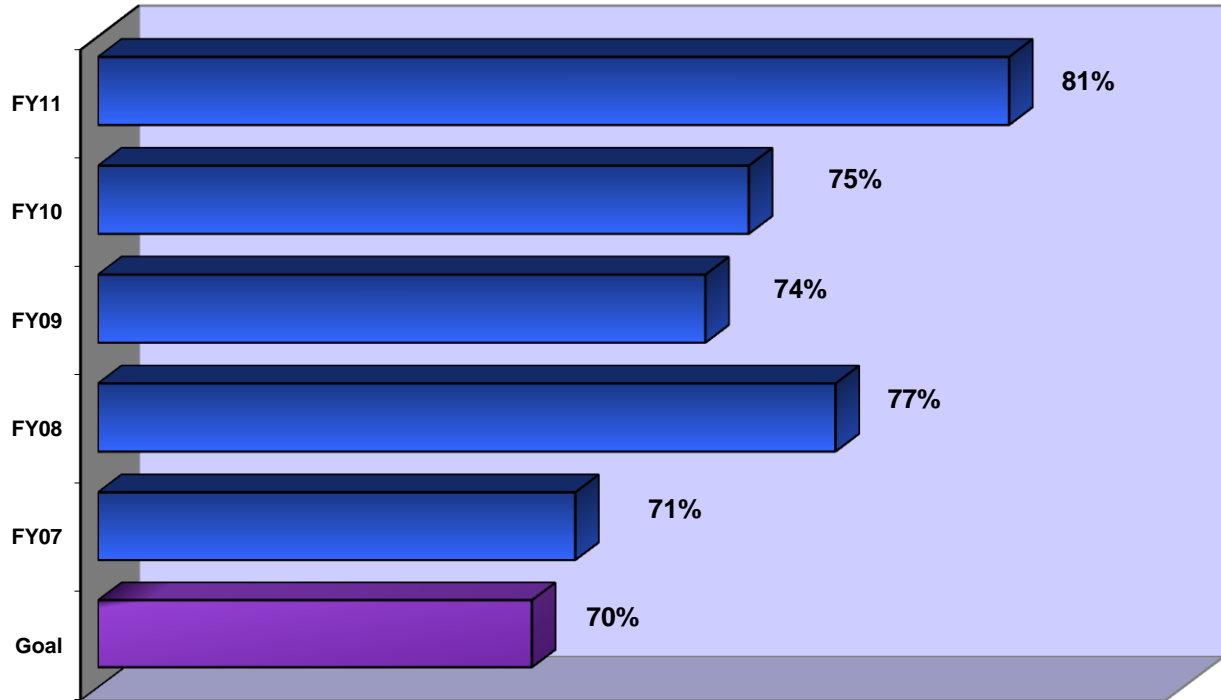
Audit No.	Audit Name	One-Time	Recurring
10-104	DMD - Parking Management Audit		\$ 130
10-107	DFCS - Social Service Contracts Audit	\$ 355,091	\$ 28,584
10-211	Fire Time Changes (Investigation performed by OIA)	\$ 5,783	
		\$ 360,874	\$ 28,714




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.



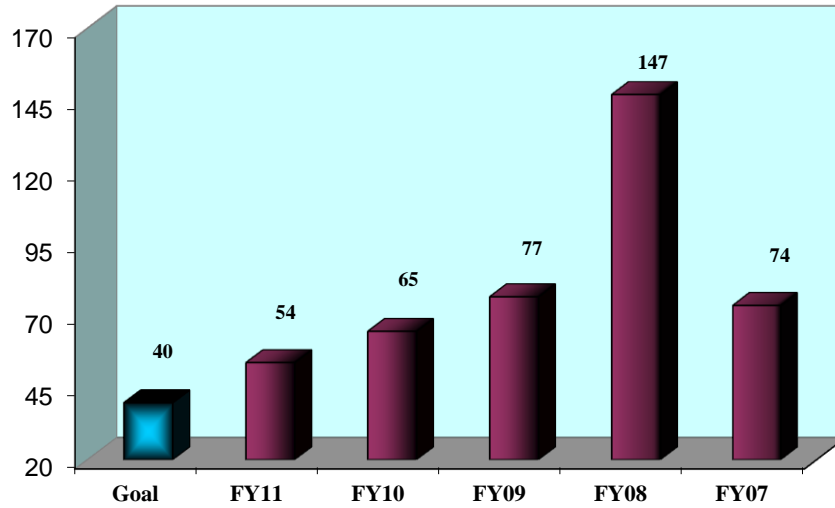
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## PERFORMANCE MEASURES - CONTINUED

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

### AVERAGE NUMBER OF CPE HOURS



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.

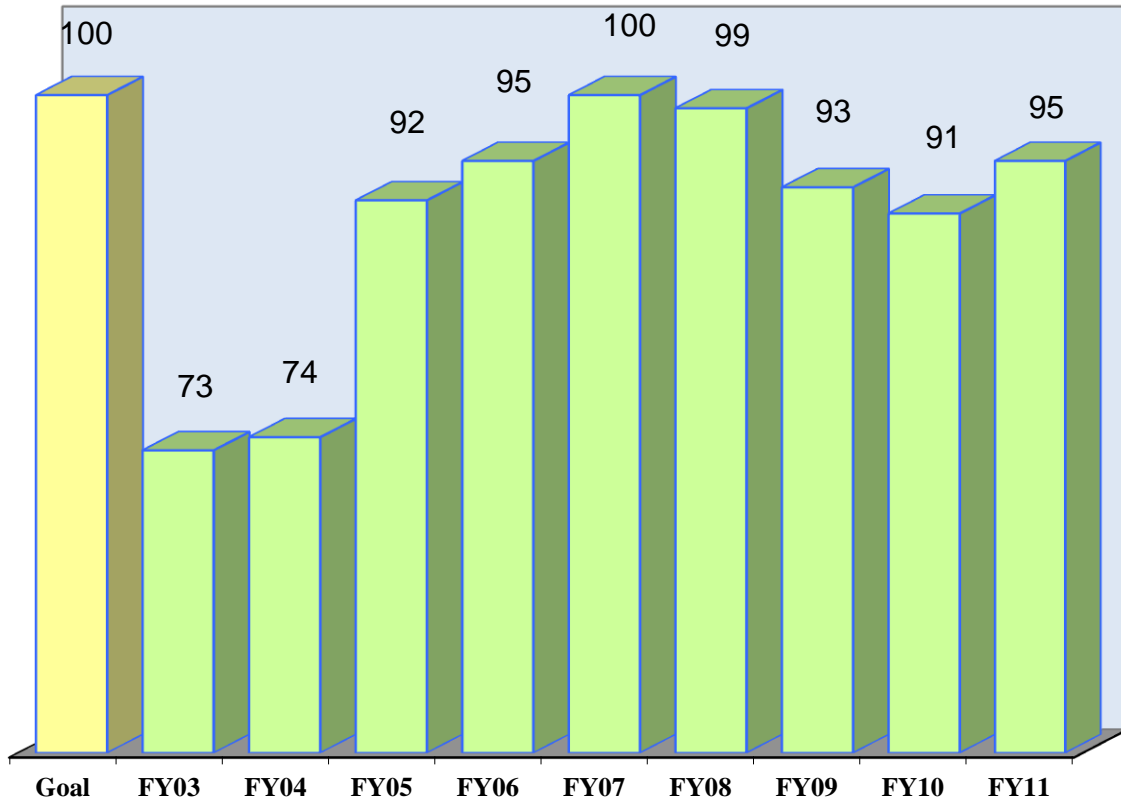
OIA staff received an average of 54 hours of CPE during FY11, exceeding the goal of 40 hours.



## 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

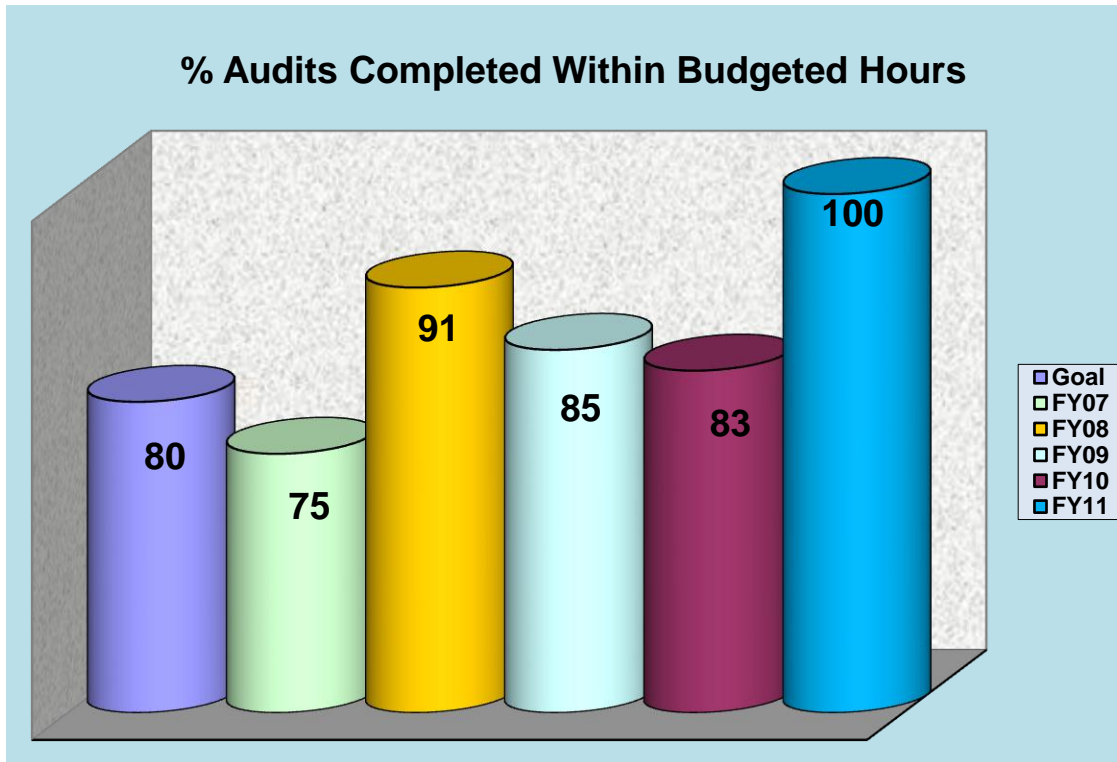


In FY11, 95% of recommendations were fully and partially accepted by the auditee. This performance measure is calculated by the concurrence of the auditee to the recommendations offered in our reports.



## PERFORMANCE MEASURES - CONTINUED

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

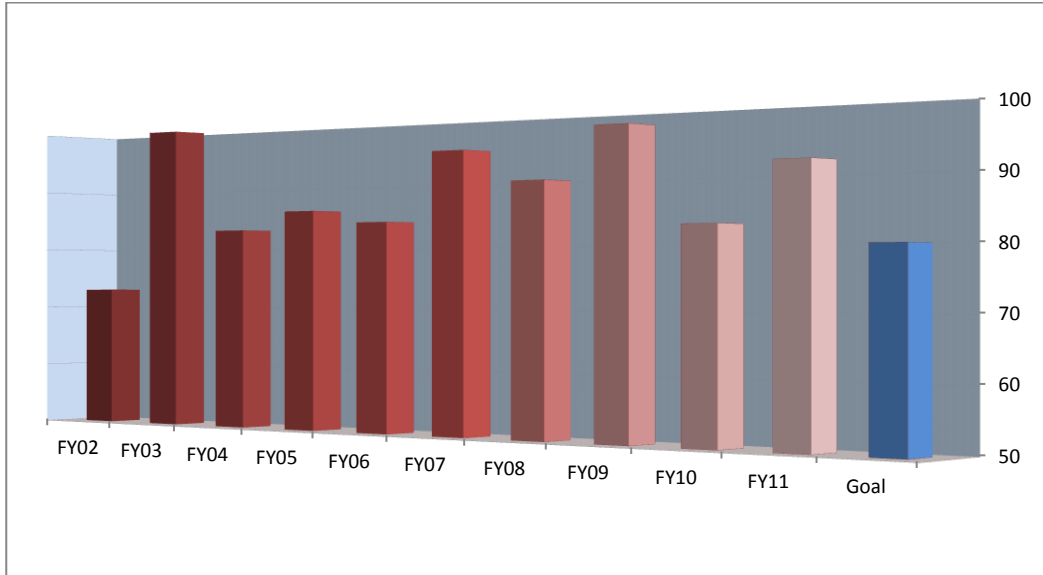


Time budgets are prepared for every audit assignment. Auditors are instructed to monitor their individual project budgets and request an increase, if necessary. In FY11, 100% of audits were completed within the budgeted hours.



## 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.



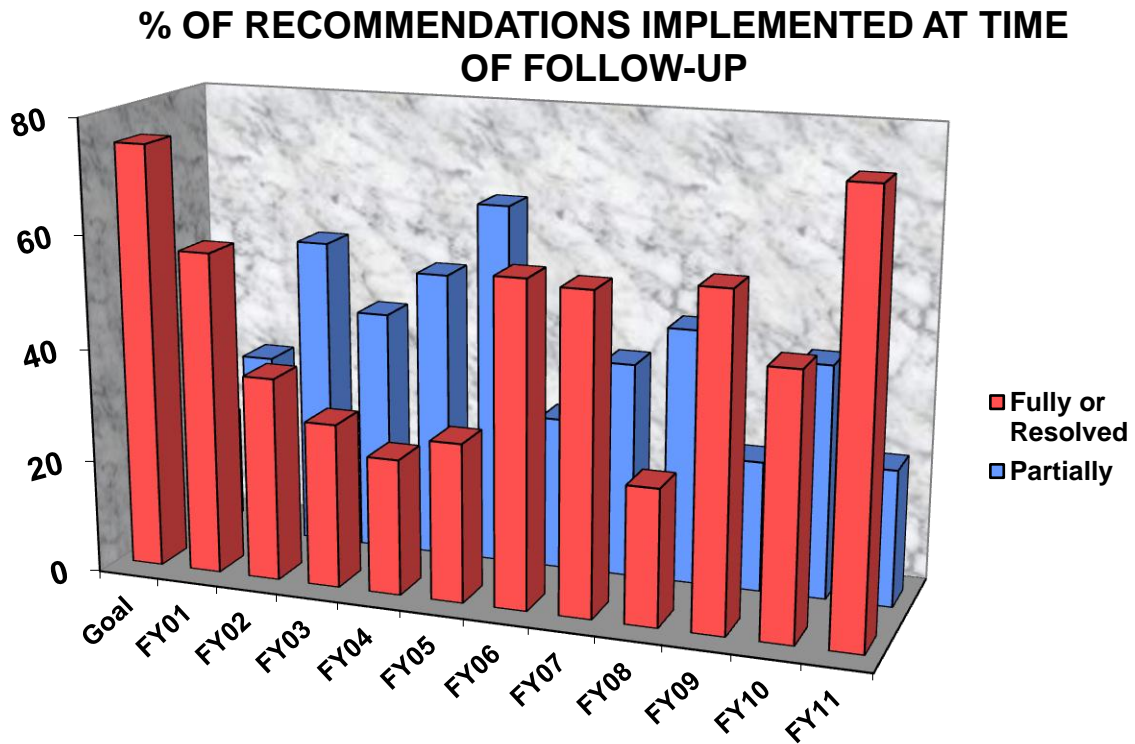
OIA asks all audited departments to complete end of audit surveys. Auditees are asked to rate the professional proficiency of the auditors, scope of work, performance of audit work, and the value of the audit reports. Ratings are on a one to five scale with five indicating “excellent.”

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)



**Association of Local  
Government Auditors**  
[www.governmentauditors.org](http://www.governmentauditors.org)



## 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

