

SPECIAL AUDIT REPORT

OF

MAYOR AND FIRST LADY'S CHARITY GALA
MAYOR'S OFFICE

REPORT NO. 11-102



City of Albuquerque
Office of Internal Audit

Mayor and First Lady's Charity Gala – Mayor's Office
Report No. 11-102
Executive Summary

Background

The Office of Internal Audit (OIA) conducted a special audit of the 2010 Mayor and First Lady's Charity Gala (Mayor's Gala). This audit was requested by the Mayor's Office as a proactive approach to improve program operations and transparency.

The 2011 Mayor's Gala will celebrate 25 years of charitable fundraising by the Mayor's Office. This event encourages businesses and the general public to attend and participate in charitable event activities. The Mayor's Gala generates funding through sponsorships, ticket sales, in-kind donations and live/silent auctions. Proceeds from the Mayor's Gala benefit local non-profit organizations dedicated to improving the overall health and welfare of the Albuquerque community.

The Mayor's Gala uses no general fund money to support the program. However, City resources such as staff and banking services are used to support program operations. The program currently operates as a trust and agency fund of the City, in which the City accounts for program monies and holds them in a custodial capacity on behalf of the Mayor's Gala.

Objective:

Are the program's operational and reporting structures in compliance with Federal, State and City regulations?

- Operating the Mayor's Gala as a trust and agency fund of the City may not be the optimal structure for maximizing program contributions.

Recommendations: The Mayor's Office should:

- Consider establishing the Mayor's Gala as a 501(c)(3).
- Obtain a *Government Affirmation Letter* from the IRS to confirm the current tax-exempt and contribution deduction status of the Mayor's Gala.

Objective:

Are the program's internal controls and policies and procedures adequate, efficient and effective to ensure financial compliance and accountability?

- OIA was unable to obtain financial reconciliation documentation for the 2010 Mayor's Gala. General ledger transaction reports had not been reconciled to internal documentation.
- Comprehensive policies and procedures have not been developed or implemented for program processes that are vulnerable to fraud or abuse such as, reservation collection/invoicing and silent/live auction oversight.
- One individual is responsible for accepting (checks), depositing funds and maintaining reservation records for the Mayor's Gala. Documentation was not used to support check deposit timeframes.

- One individual is both a purchasing card (p-card) holder for the Mayor's Gala and is the p-card coordinator for the Mayor's Office. Transactions on the Mayor's Gala p-card were not approved in the system used to process p-card transactions (Works).
- Procurement practices were not in compliance with the City's Public Purchase Ordinance. Ten of 16 purchasing transactions tested contained exceptions.

Recommendations: The Mayor's Office should:

- Reconcile Mayor's Gala general ledger accounts on a timely basis to support program operations.
- Implement policies and procedures for program processes that are vulnerable to fraud or abuse such as, reservation collections/invoicing and silent/live auction oversight.
- Authorize an individual independent of the Mayor's Gala to receive and log checks. Work with the DFAS-Treasury Division to create and implement a revenue register to record checks received.
- Separate the functions of p-cardholder and p-card coordinator. P-card transactions should be reviewed and approved within the Works system by the p-card coordinator.
- Ensure operating policies and procedures and the Public Purchases Ordinance are being followed for all procurement activities. Mayor's Gala staff should work closely with DFAS-Purchasing Division to ensure full compliance with applicable regulations.

Objective: Was beneficiary selection criteria established and used to allocate charity funds in an objective manner?

- Criteria and grant proposal evaluation worksheets were created to assess beneficiary applications. However, supporting documentation for proposal evaluations was retained by only one of three selection committee members. A master ranking list was not compiled from evaluation worksheets and the methodology for filtering applicants were not documented.

Recommendation: The Mayor's Office should:

- Ensure that established evaluation criteria and methodologies are documented and followed by all Selection Committee members. All documentation should be retained.

During fieldwork we noted no exceptions for the following objective:

Are performance measures used to support the mission of the program, assess the overall impact and effectiveness of donated funds and communicate to stakeholders?

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

April 27, 2011

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

Audit: Special Audit
Mayor and First Lady's Charity Gala
11-102

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a special audit of the 2010 Mayor and First Lady's Charity Gala (Mayor's Gala). This audit was requested by the Mayor's Office as a proactive approach to improve program operations and transparency.

The 2011 Mayor's Gala will celebrate 25 years of charitable fundraising by the Mayor's Office. This event encourages businesses and the general public to attend and participate in charitable event activities. The Mayor's Gala generates funding through sponsorships, ticket sales, in-kind donations and live/silent auctions.

Proceeds from the Mayor's Gala benefit local non-profit organizations dedicated to improving the overall health and welfare of the Albuquerque community. In 2010, the Mayor's Gala stated that the event generated approximately \$180,000 for the benefit of the community. As of December 2010, \$153,384 has been distributed to non-profit beneficiaries of the 2010 Mayor's Gala. Homelessness, elderly care, job creation and economic development were the focus areas of the 2010 event. The Selection Committee of the Mayor's Gala selected seven non-profit organizations who dedicate countless hours toward the improvement and support of our local community.

2010 Beneficiary Selections

Beneficiary	Amount
ARCA	\$ 63,014
Silver Horizons Inc.	\$ 12,500
The Harmony Project	\$ 23,470
The Barrett Foundation	\$ 10,000
Bernalillo County Council of PTA's Clothing Bank	\$ 9,400
United Way of Central NM	\$ 10,000
Catholic Charities	\$ 25,000
Total	\$153,384

Source: Mayor's Gala

The Mayor's Gala uses no general fund money to support the program. However, City resources such as staff and banking services are used to support program operations. The program currently operates as a trust and agency fund of the City, in which the City accounts for program monies and holds them in a custodial capacity on behalf of the Mayor's Gala.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Are the program's operational and reporting structures in compliance with Federal, State and City regulations?
- Are the program's internal controls and policies and procedures adequate, efficient and effective to ensure financial compliance and accountability?
- Are performance measures used to support the mission of the program, assess the overall impact and effectiveness of donated funds and communicate to stakeholders?
- Was beneficiary selection criteria established and used to allocate charity funds in an objective manner?

SCOPE

Our audit did not include an examination of all functions and activities related to the Mayor's Gala. Our scope primarily focused on program structure, accountability and outcomes for the 2010 Mayor's Gala.

This report and its conclusions are based on information taken from all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, March 23, 2011, and does not reflect events or accounting entries after this 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 Federal, State and City regulations applicable to the operational structure, financial compliance, performance measures and beneficiary selection process for the Mayor's Gala. OIA interviewed key personnel to gain an understanding of event activities and internal controls. Test

work was completed for revenue and procurement transactions. OIA reviewed supporting documentation to determine the financial accuracy of transactions, if beneficiary allocations were based on pre-established criteria and methodology, effectiveness of donated funds and ensure programmatic compliance with applicable rules and regulations.

OIA conducted research and surveyed regionally comparable and in-state cities in an effort to identify best practices pertaining to the operational structure of other mayoral charitable fundraising events.

FINDINGS

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

1. THE MAYOR'S OFFICE SHOULD DETERMINE THE OPTIMAL OPERATING STRUCTURE FOR THE MAYOR'S GALA.

Currently the Mayor's Gala operates as a City trust and agency fund, in which the City accounts for program monies and holds them in a custodial capacity on behalf of the event. City resources such as staff and banking services are used to support program operations. Operating the Mayor's Gala as a trust and agency fund may not be optimal for maximizing program contributions because it is unclear if the program is exempt from State and Federal taxation.

The 2010 Mayor's Gala paid \$7,746 in State Gross Receipts Tax (GRT), which hindered the organization from maximizing beneficiary contributions. If the Mayor's Gala was structured as or sponsored by a 501(c)(3) they would be exempt from State and Federal taxation.

Based on the activities of the Mayor's Gala, it appears that the event qualifies as an organization described in section 26CFR1.501(c)(3). To qualify as a 501(c)(3), an organization must be organized and operated exclusively for one or more of the following purposes:

- Religious,
- Charitable,
- Scientific,
- Testing for public safety,
- Literary,
- Educational, or
- Prevention of cruelty to children or animals.

The Mayor's Gala has not applied to become organizationally structured as a 501(c)(3).

Under 26CFR 1.170(c)(1), charitable contributions to governmental units are tax deductible if they are made for a public purpose. OIA could not determine if contributions made to the Mayor's Gala are used for a public purpose or target the specific focus areas selected each year. For example, the Internal Revenue Service (IRS) provides the example of contributing to reduce the public debt to illustrate public purpose contributions.

Since the Mayor's Gala is considered a function of the City, staff will need to obtain a *Government Affirmation Letter* from the IRS to validate the program's tax exempt and contribution deduction status. This letter describes government entity exemption from Federal income tax and cites applicable IRS sections pertaining to deductible contributions and income exclusions.

Regardless of the organization's structure, as long as the Mayor's Gala continues to use City resources to support event operations, the organization will be subject to the State "Anti-donation Clause." Article IX, Section 14 of New Mexico's Constitution states that no municipality shall directly or indirectly make any donation to or in aid of any person, association or public or private corporation. However, subsection A states "Nothing in this section prohibits the state or any county or municipality from making provision for the care and maintenance of sick and indigent persons." Therefore, when using City resources to support this program's operations, charity donations may only be distributed to organizations whose purpose is for the care and maintenance of sick and indigent persons.

OIA conducted additional research in an effort to identify best practices pertaining to the organizational structure of other mayoral charitable fund raising events. Results of this research are summarized in the table below.

Organizational Structure for Mayoral Charitable Events

City	Event set up as a 501(c)(3)	Event set up by outside 501(c)(3)	Function of the City (Trust and Agency Fund)	Professional Fundraiser	Mayor Does Not Host a Charitable Event
Albuquerque, NM			X		
Anchorage, AK	X				
West Hartford, CT	X				
Kettering, OH		X			
Mesa, AZ		X			
Rio Rancho, NM		X			
Las Cruces, NM				X*	
El Paso, TX					X
Oklahoma City, OK					X
Tucson, AZ					X
McMinnville, OR			X**		
Total	2	3	1	1	3

*Fundraiser hired by the charity it benefits, not the City of Las Cruces.

Source: OIA Research and Surveys

**Considering organizing as a 501(c)(3).

RECOMMENDATIONS

The Mayor's Office should:

- Consider establishing the Mayor's Gala as a 501(c)(3). The establishment of a 501(c)(3) will eliminate unnecessary issues with State and Federal taxation but may impose additional registration and reporting requirements outlined in NMSA §57-22, the State's Charitable Solicitations Act.
- Obtain a *Government Affirmation Letter* from the IRS to confirm the current tax-exempt and contribution deduction status of the Mayor's Gala.

RESPONSE FROM THE MAYOR'S OFFICE

"The administration has concluded that the most effective means of resolving the structural and procedural issues identified in this audit is to transfer the responsibility for operation and the finances of this charity event to a non-profit. Consequently, the United Way of Central New Mexico has agreed to sponsor the 2011 Charity Gala through its subsidiary 501 (c) 3 New Mexico Charities."

2. THE MAYOR'S OFFICE SHOULD ENSURE FINANCIAL RECONCILIATIONS ARE PREPARED AND REVIEWED ON A TIMELY BASIS FOR THE MAYOR'S GALA.

OIA was unable to obtain financial reconciliation documentation for the 2010 Mayor's Gala. General Ledger (GL) transaction reports had not been reconciled to internal documentation. During test work OIA noted five expenses that were charged to revenue accounts, two unidentified GL deposits and 16 of 31 expense items could not be reconciled between internal documentation and GL activity. As a result, transactions are not accurately recorded within the City's GL.

NMSA 1978 §12-6-5, Reports of Audits, states that any violation of good accounting practices be included within annual or special audits. In addition, the Governmental, Accounting, Auditing and Financial Reporting Guide produced by the Government Finance Officers Association (GFOA) states that periodic reconciliations are important to ensure the financial accuracy of accounting records. For example, the balances reported in the GL control account should be reconciled to related amounts reported in subsidiary ledgers.

GL accounts were unreconciled because of a lack of Gala staff knowledge and communication between Department of Finance and Administrative Service (DFAS) – Accounting Division and Gala staff. Therefore, DFAS – Accounting was assigned the responsibility for the reconciliation.

As a result of unreconciled balances, financial performance for the Mayor's Gala has not been communicated to stakeholders. Lack of communication to stakeholders and the public may result in decreased revenues for City charity events such as the Mayor's Gala.

RECOMMENDATION

The Mayor's Office should reconcile GL accounts on a timely basis to support program operations. Reconciliations should be in a standard format, include sufficient supporting detail for all transactions and incorporate separation of duties. They should be reviewed/approved by an individual independent of the data entry or reconciliation process.

OIA NOTE: On April 6, 2011, after the completion of fieldwork, OIA received reconciliation documents from DFAS-Accounting. These documents were requested during fieldwork but DFAS-Accounting reported they were under review by management.

RESPONSE FROM THE MAYOR'S OFFICE

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3. THE MAYOR'S OFFICE SHOULD DEVELOP COMPREHENSIVE POLICIES AND PROCEDURES FOR THE MAYOR'S GALA.

A. Policies and Procedures

Operating procedures to address cash handling and procurement practices have been developed for the Mayor's Gala. However, exceptions were noted for several transactions. For example, OIA noted one cash deposit. Operating procedures specifically state "No cash payments are to be accepted." OIA also noted that 2 out of 30 check deposits were not dual verified. The City's *Cash Handling Manual* states that all deposits must be made within 24 hours of receipt and dual verification is necessary to ensure the accuracy of such deposits.

Mayor's Gala staff stated that due to time constraints, operating policies and procedures were created and adopted one month prior to the 2010 Mayor's Gala. Event activities started prior to the adoption of these operational procedures. However, the exception noted above for the cash deposit occurred after the adoption of these procedures.

Comprehensive policies and procedures have not been developed or implemented for other program processes that are vulnerable to fraud or abuse such as, reservation collection/invoicing, Point of Sale (POS) terminals, silent/live auction oversight and worker/volunteer conflict of interests.

B. Separation of Duties for Receipting Process

One individual is responsible for accepting receipts (checks) and depositing funds for the Mayor's Gala. The same individual is also responsible for maintaining reservation records. In addition, documentation was not used to support check deposit timeframes. Naturally not all checks will be dated the exact date Gala staff receive them. Many checks are received in advance and may be subject to processing. However, Gala staff should keep a receipt log to track when a check was received and deposited.

According to GFOA, incompatible duties should be separated. Duties of recordkeeping and custody of assets should be assigned to different individuals. No one individual should be assigned more than one of these duties.

C. P-card Oversight and Approval

Five transactions on the Mayor's Gala's purchasing card (p-card) were not approved in the system used to process p-card transactions (Works). The Mayor's Gala p-card was issued in April 2010. In November 2010, the p-cardholder for the Mayor's Gala was also set up as the p-card coordinator.

One individual is both a p-cardholder for the Mayor's Gala and is the p-card coordinator for the Mayor's Office. The City's *Purchasing Card Policies and Procedures* outline the terms and conditions for p-cardholders and coordinators. The policies state that p-card coordinators are assigned to monitor p-card usage of the department's cardholders, reconcile weekly transaction reports and receipts and ensure proper City accounting information is accurate.

RECOMMENDATIONS

The Mayor's Officer should:

- Implement policies and procedures for program processes that are vulnerable to fraud or abuse such as, reservation collections, silent/live auction oversight, POS terminals and worker/volunteer conflict of interests. Procedures should maintain separation of duties and delegate responsibility for assigned activities.
- Work with the DFAS-Treasury Division to create and implement a revenue register for checks that includes information such as check number, payer name, amount of check, date of check, date check was received and deposit date of check.
- Authorize an individual independent of the Mayor's Gala to receive and log checks.
- Separate the functions of the p-cardholder and the p-card coordinator for the Mayor's Office. P-card transactions should be reviewed and approved within the Works system by the p-card coordinator.

RESPONSE FROM THE MAYOR'S OFFICE

"The administration has concluded that the most effective means of resolving the structural and procedural issues identified in this audit is to transfer the responsibility for operation and the finances of this charity event to a non-profit. Consequently, the United Way of Central New Mexico has agreed to sponsor the 2011 Charity Gala through its subsidiary 501 (c) 3 New Mexico Charities."

4. THE MAYOR'S OFFICE SHOULD ENSURE THAT PROCUREMENT ACTIVITY COMPLIES WITH THE MAYOR'S GALA OPERATIONAL PROCEDURES AND CITY'S PUBLIC PURCHASES ORDINANCE.

Procurement practices were not in compliance with the City's Public Purchases Ordinance, Chapter 5, Article V. Operational procedures for the Mayor's Gala include language that states "It has been determined, this year the standards set forth for the City public purchases will also be used for procurements of goods and services for this year's event."

Ten of 16 purchasing transactions tested contained exceptions. Several transactions contained more than one exception:

- 4 instances of missing contract signatures (including Gala staff or Purchasing Officer approval);
- 7 instances of absent contracts or rental agreements for professional/technical goods and services;
- 1 instance where the program did not use a competitive bid process for services;
- 3 instances where supporting documentation for procurement methodologies were not in procurement files; and
- 1 instance of post dated contract compliance forms.

By not complying with City procurement regulations the Mayor's Gala may not have obtained goods and services at the most advantageous price. The absence of contract/rental agreements and contract signatures exposed the program and City to unnecessary liability and may have voided the legality and enforcement of contracts.

The Public Purchases Ordinance outlines regulations to be followed for City purchases. Mayor's Gala staff stated that due to time constraints, operating policies and procedures were created and adopted one month prior to the 2010 Mayor's Gala. Procurement activities started prior to the adoption of these operational procedures. However, several exceptions were noted after the adoption of these procedures.

RECOMMENDATION

The Mayor's Office should ensure operating policies and procedures and the Public Purchases Ordinance are being followed for all procurement activities. Mayor's Gala staff should work closely with the DFAS – Purchasing Division to ensure full compliance with applicable regulations.

RESPONSE FROM THE MAYOR'S OFFICE

"The administration has concluded that the most effective means of resolving the structural and procedural issues identified in this audit is to transfer the responsibility for operation and the finances of this charity event to a non-profit. Consequently, the United Way of Central New Mexico has agreed to sponsor the 2011 Charity Gala through its subsidiary 501 (c) 3 New Mexico Charities."

5. THE MAYOR'S OFFICE SHOULD ENSURE THAT PRE-ESTABLISHED CRITERIA AND METHODOLOGIES ARE USED BY ALL SELECTION COMMITTEE MEMBERS AND SUPPORTING DOCUMENTATION IS RETAINED FOR ALL ACTIVITIES.

Evaluation criteria and grant proposal evaluation worksheets were created to assess beneficiary applications in eight areas. Selection committee members stated that they used evaluation worksheets to evaluate each application in order to determine final beneficiary allocations. However, supporting documentation was retained by only one of three members, a master ranking list was not compiled from evaluation worksheets and methodologies for filtering applicants were not documented. Therefore, it is unclear if beneficiary selections followed pre-established criteria to derive final allocations.

The Accountability in Government Ordinance, Chapter 2, Article X states that "good governance, transparency and accountability are critical in the public sector for the effective and credible functioning of a healthy democracy, and in fulfilling the government's responsibility to citizens and taxpayers." The 2010 Mayor's Gala beneficiary funding letters also stated " After a thorough review process and consideration of each proposal by committee, four recipients have been selected for this year's gala funding."

RECOMMENDATION

The Mayor's Office should ensure that evaluation criteria is established and followed during application assessments. All documentation for application evaluations should be retained and a master ranking list should be compiled for beneficiary allocations. Methodologies for disqualifying or filtering applicants should be documented and retained with original files.

RESPONSE FROM THE MAYOR'S OFFICE

“The administration has concluded that the most effective means of resolving the structural and procedural issues identified in this audit is to transfer the responsibility for operation and the finances of this charity event to a non-profit. Consequently, the United Way of Central New Mexico has agreed to sponsor the 2011 Charity Gala through its subsidiary 501 (c) 3 New Mexico Charities.”

CONCLUSION

Based on the findings within this audit and proactive approach by the Mayor's Office, we believe that the Mayor's Gala will benefit from OIA's efforts. This audit will help the Mayor's Gala comply with applicable regulations, determine the optimal operational structure for the program, ensure financial accountability and outline documentation to support evaluation processes for beneficiary selections.

We greatly appreciate the assistance and cooperation of the Mayor's Office and City personnel during this audit.

Principal Auditor/Investigator

REVIEWED:

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APPROVED:

APPROVED FOR PUBLICATION:

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