

**City of Albuquerque
Office of Internal Audit**



Fiscal Year 2012 Annual Report
July 1, 2011 - June 30, 2012



**Office of Internal Audit
FY 2012 Annual Report
July 1, 2011 - June 30, 2012**

TABLE OF CONTENTS

	<u>Page</u>
Letter from the Director.....	3
Organization Chart.....	5
Reports.....	6
Audit/Investigation Hours by Department.....	7
Special Projects.....	8
Budget.....	9
Performance Measures	10
Implementation of Recommendations	15
Staff.....	19
Accountability in Government Oversight Committee.....	23

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

September 26, 2012

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 ensure that tax payers' dollars are spent efficiently and effectively.

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 City Council and the Mayor regarding the activities of the office. This annual report is for the year ended June 30, 2012.

The FY 2013 approved budget for the OIA is \$826 thousand, an increase of \$24 thousand or three percent from the FY 2012 budget of \$802 thousand.

The City Council established a priority objective for FY 2011 that concerned OIA:

Utilizing existing staff and available resources, conduct 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.

The Department of Finance and Administrative Services, Office of Management and Budget (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.

The second study was completed by OMB in FY 2013 and states:

In terms of how Albuquerque compares to the rest of the country, the results of the survey are clear. Compared to the average, the Albuquerque Office of Internal Audit has a smaller operating budget; has fewer staff; includes five fewer audits per year in the annual audit plan; takes 23 fewer days to complete an audit; has slightly more than one audit in progress at any given time; and conducts audits for about \$18,000 less than the average city surveyed.”

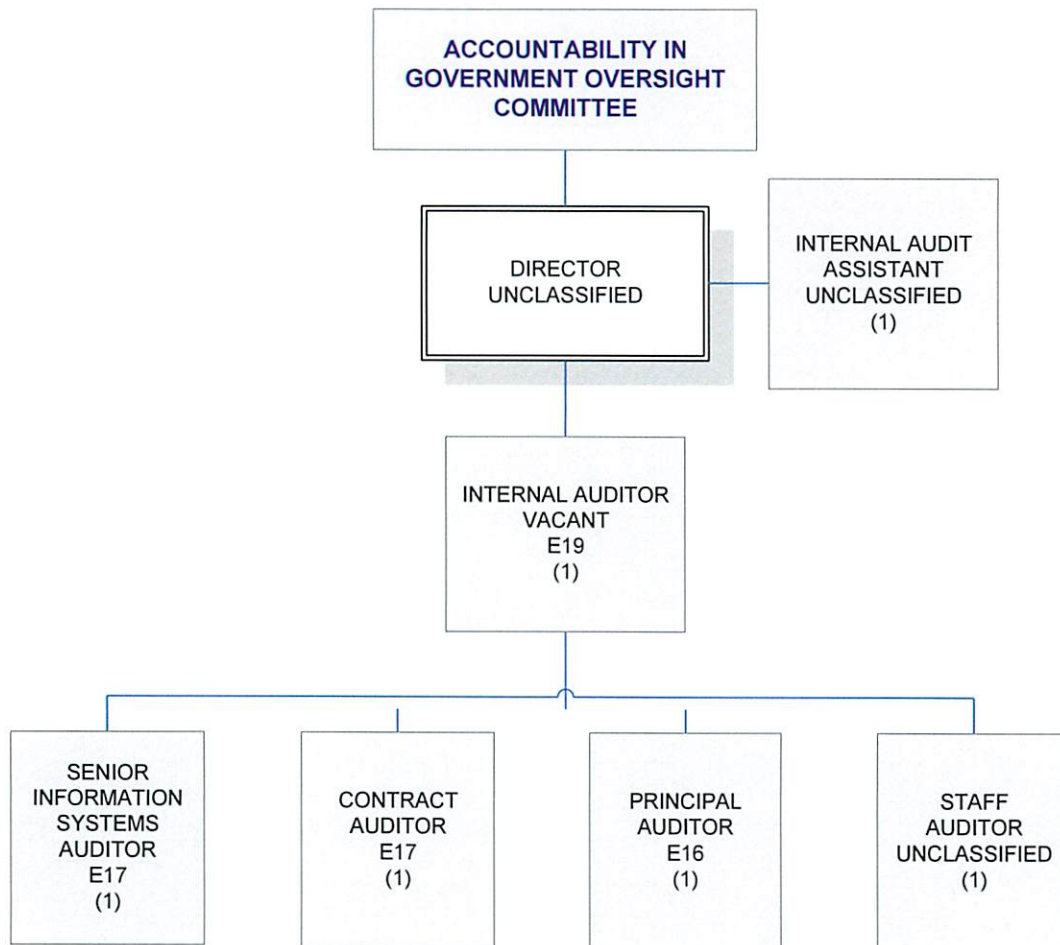
It is unclear what action, if any, the Council will take as a result of the studies' conclusions. OIA continues to perform audits that follow Government Auditing Standards and the Accountability in Government Oversight Ordinance. OIA believes that the fundamental purpose, nature, and scope of internal auditing is to provide an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Sincerely,



Carmen L. Kavelman, CPA CISA CGAP CFE
Director

**OFFICE OF INTERNAL AUDIT
ORGANIZATION CHART
June 30, 2012**



REPORTS

The Office of Internal Audit (OIA) had 13 reports approved by the Accountability in Government Oversight Committee in Fiscal Year (FY) 2012:

- 9 Audits
- 4 Follow-ups

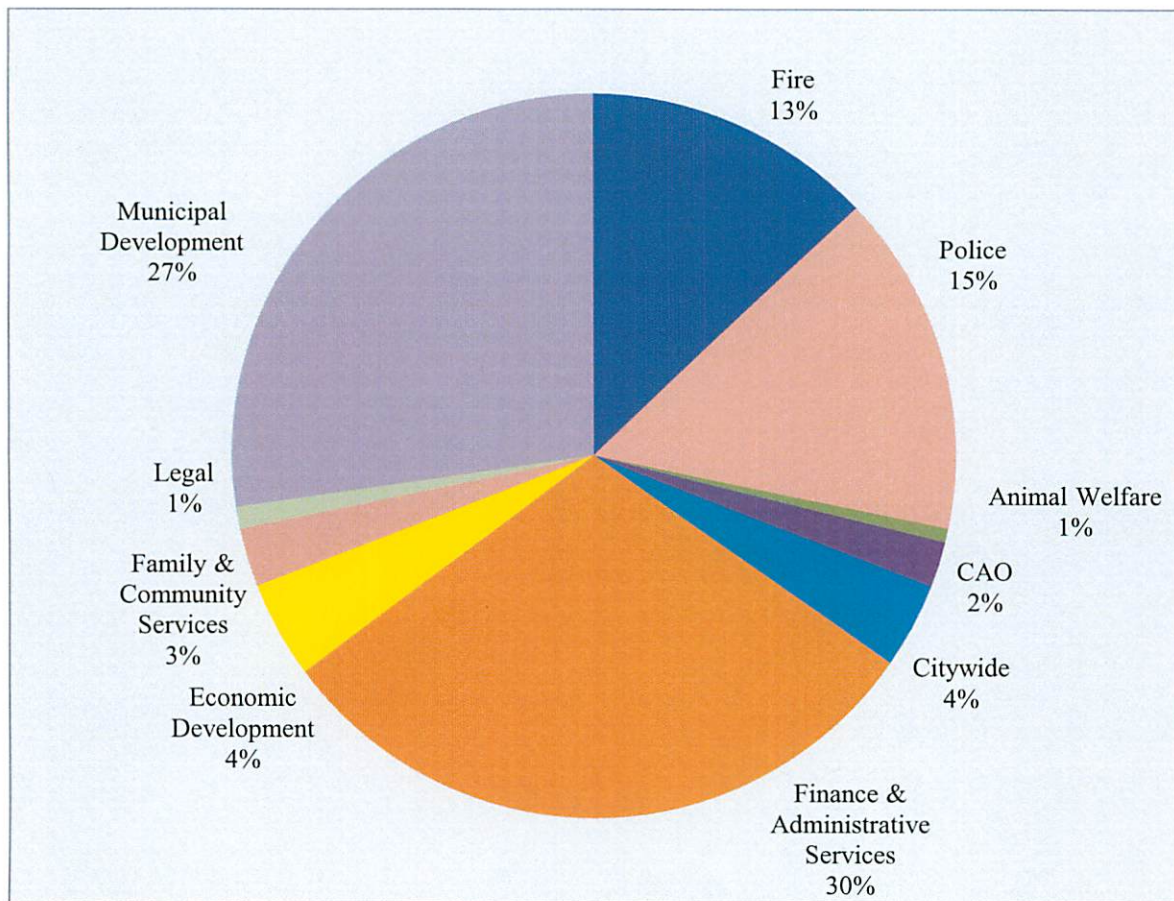
Reports Approved in FY12

Date	Number	Name
09/02/11	10-106	Management Audit Fire Certifications and Licenses Albuquerque Fire Department
09/15/11	11-101	Management Audit Fiscal Management Animal Welfare Department
10/26/11	11-103	Special Audit Database Security - Citywide
02/29/12	11-104	Management Audit On-Call Contractors Department of Municipal Development
02/29/12	11-105	Management Audit Transportation Infrastructure Tax (Trans Tax) for Fiscal Years 2008 2009 and 2010 Department of Municipal Development
4/25/12	12-101	Management Audit, Fuel Usage and Security, Department of Finance and Administrative Services
6/27/12	12-102	Management Audit, Fleet Maintenance Program, Albuquerque Fire Department
6/27/12	12-103	Management Audit, Firearms Inventory, Albuquerque Police Department
6/27/12	12-104	Special Audit, Officer Retention Plan, Albuquerque Police Department
02/29/12	12-10-104F	Follow-up Status Report - Parking Division - Department of Municipal Development
10/26/11	12-07-102F	Follow-up Status Report - Lodger's Tax - Department of Finance & Administrative Services
08/31/11	11-07-109F	Follow-up Status Report - Department of Senior Affairs - Payroll
07/29/11	11-08-110F	Follow-up Status Report - Human Resources Department - Insurance and Benefits Division

AUDIT HOURS BY DEPARTMENT

Finance & Administrative Services	1487
Municipal Development	1352
Police	757
Fire	642
Economic Development	213
Citywide	189
Family & Community Services	131
CAO	102
Legal	49
Animal Welfare	31

The table above does not include 1,080 hours of miscellaneous audit and IT hours.



SPECIAL PROJECTS

OIA was involved in several projects. Some of the more significant projects were as follows:

- ***Chief Administrative Officer Performance Measure Hearings***

At the invitation of the Administration, OIA staff members attended the FY 2013 department performance measure hearings held with the Office of Management and Budget (OMB).

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

At the invitation of the Administration, OIA staff members attended the FY 2013 department budget hearings held with OMB.

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

The Senior IS Auditor started participating in the ITIL certification process on June 15, 2011. His goal was 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.

- ***Special Management Study of the Administrative Hearing Office***

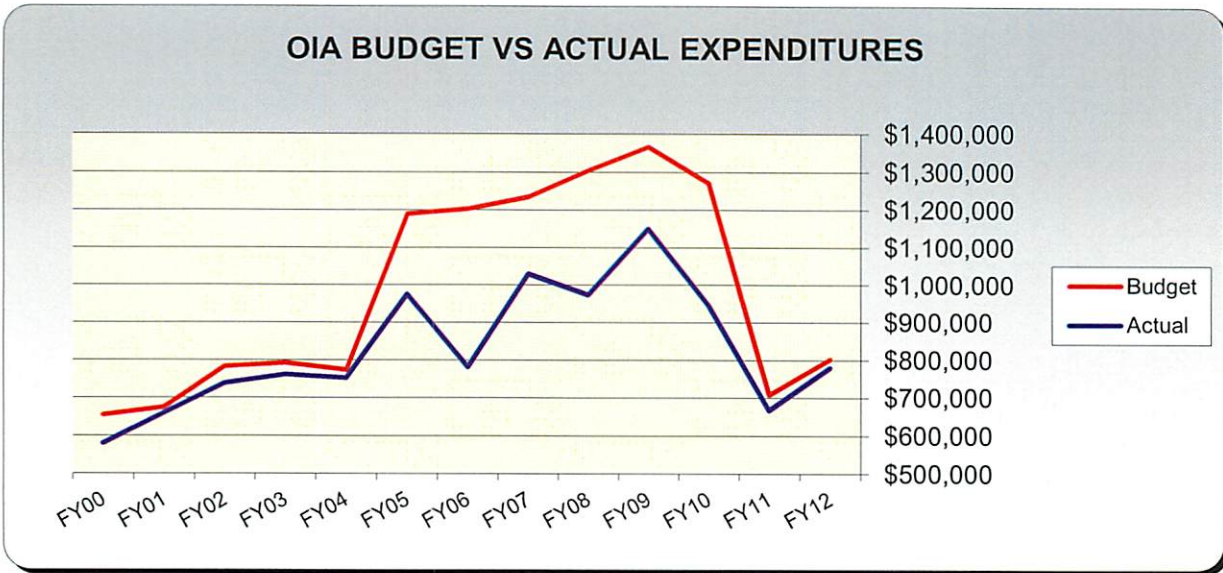
The Chief Administrative Officer requested OIA and OMB work together to perform an administrative review of Administrative Hearing Office program performance, staffing levels, workflows, workloads of various employees, administrative structure, supervision policies, work-hours/scheduling, and other relevant administrative areas.

- ***Management Advisory Services***

OIA received 24 requests for management advice and assistance in FY2012. We encourage City departments to consider our office a resource for assistance and direction.

BUDGET

In FY 2012, the OIA budget increased to restore the previously deleted Staff Auditor Position. The FY 2012 budget of \$802,000 included \$741,000 for personnel, \$58,000 for operating expenses, and \$3,000 for transfers. The chart below shows budget and actual expenditure comparisons since FY 2000.



Note: For the years FY 2005 through FY 2010, the budget contained funding for the Inspector General activity.

*Actual expenditures for FY2012 are approximate, as they are unadjusted and unaudited.



PERFORMANCE MEASURES

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, and
- ✍ Recommending programs/policies which educate and raise the awareness of all City officials and employees.

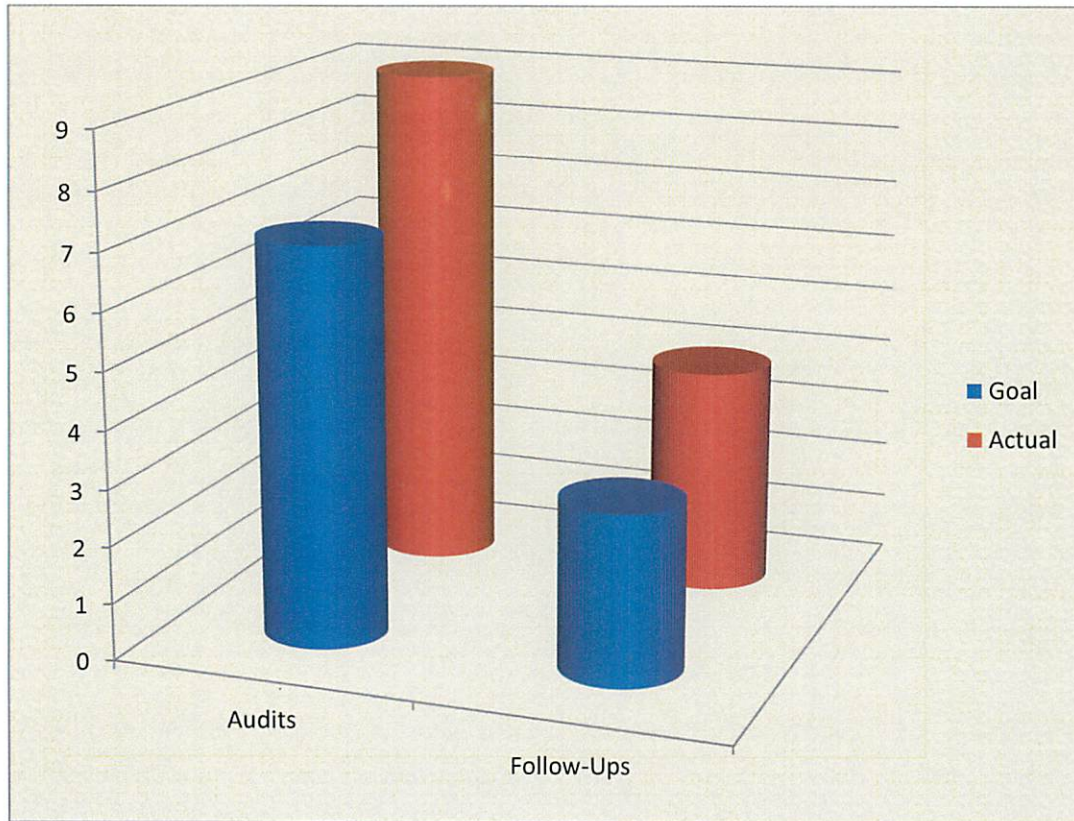
The OIA Program Strategy is a part of the City's Goal 8, *Government Excellence and Effectiveness*.



PERFORMANCE MEASURES - CONTINUED

The FY2012 strategy outcome and performance measures are as follows:

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



OIA finalized thirteen reports in FY2012: nine audits and four follow-ups. Staffing levels and complexity of projects have a direct effect on achieving this measure.

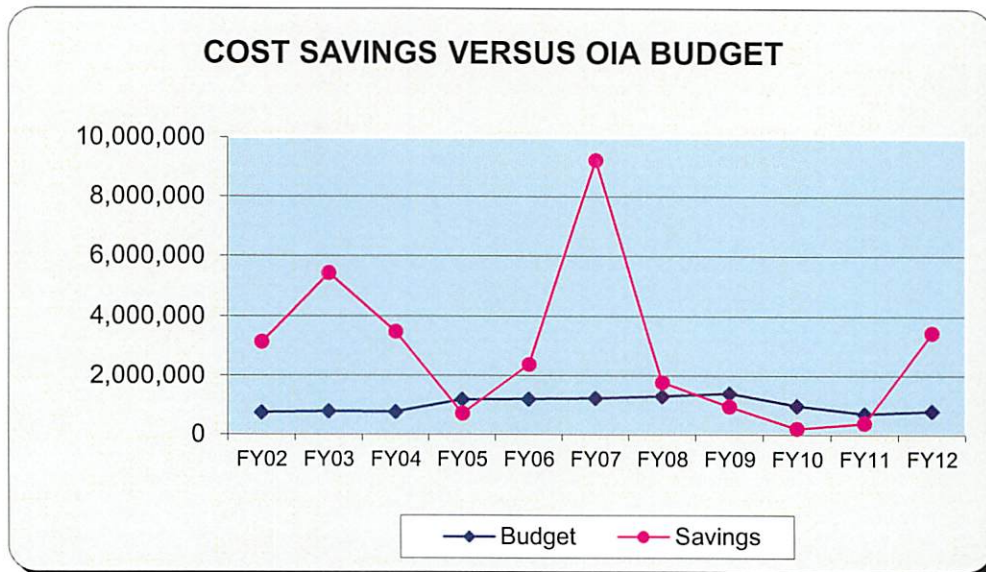
**13 REPORTS
FINALIZED IN
FY2012**



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 \$3,429,512 of nonrecurring and \$26,142 of recurring annual reductions in expenditures, avoided costs, recoveries and potential increases in revenues which the City could realize with the implementation of FY2012 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	
\$ 802,000	\$3,455,654	431%

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

Actual Expenditures	Potential Cost Savings	
\$ 780,000*	\$3,455,654	443%

* 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:

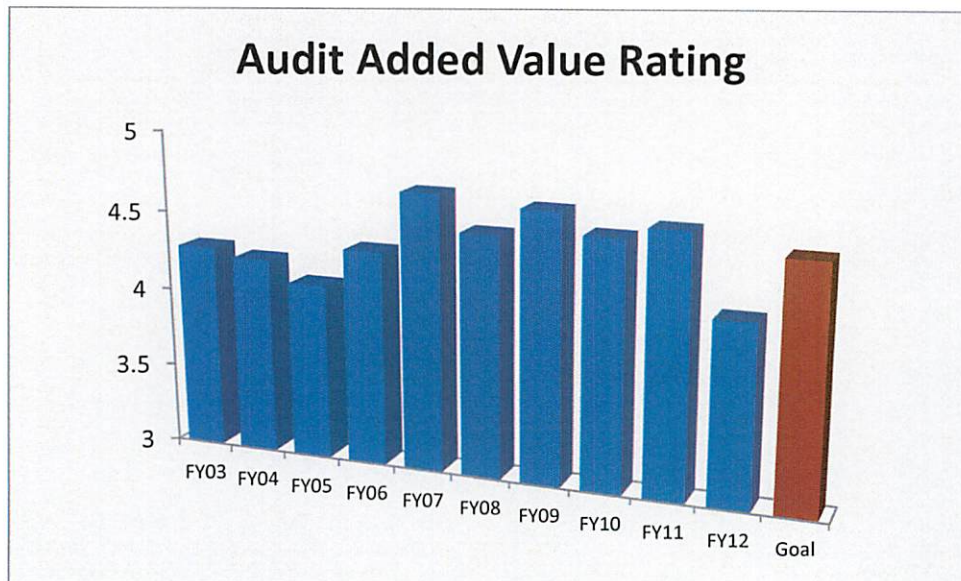
Audit No.	Audit Name	One-Time	Recurring
10-106	AFD – Certifications and Licensing	\$ 5,041	
11-101	AWD – Fiscal Management	\$ 41,000	\$ 7,342
11-103	DFAS - Database Security	\$ 26,264	
11-104	DMD – On-Call Contractors	\$ 3,056,158	
12-102	AFD – Fleet Maintenance	\$ 17,000	\$ 18,800
12-104	APD – Officer Retention Plan	\$ 21,025	
12-302	CAO – Administrative Hearing Office	\$ 263,024	
		\$ 3,429,512	\$ 26,142



 3,455,654

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.

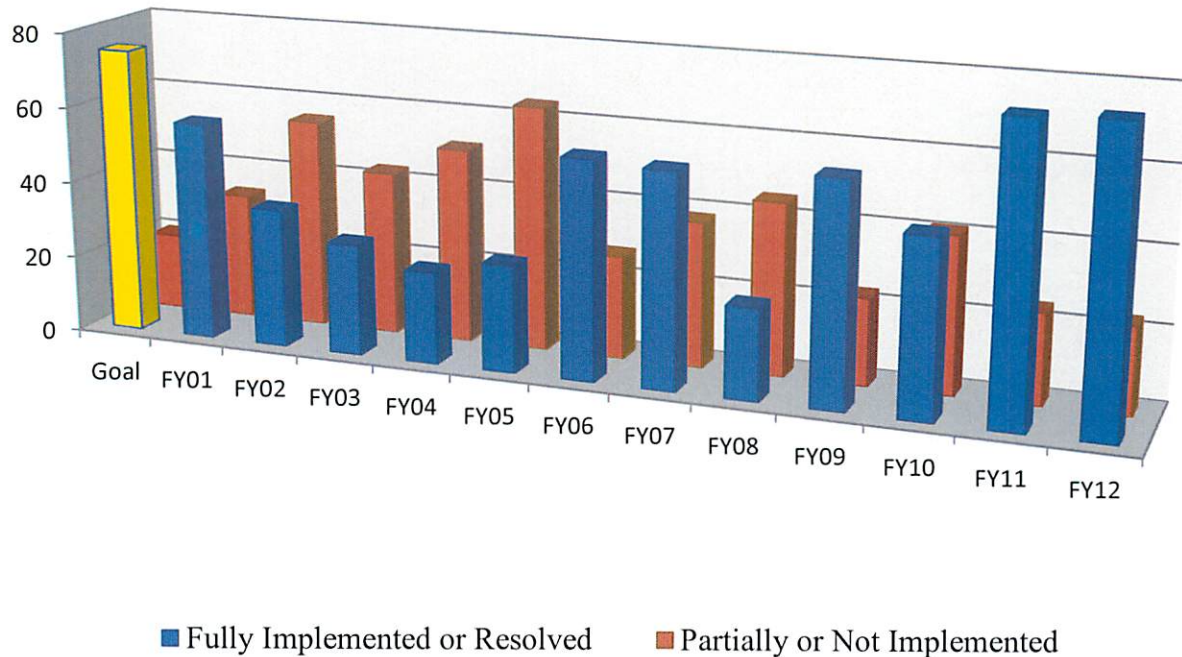


OIA asks all audited departments to complete end of audit surveys. Auditees are asked to rate the professional proficiency of the auditors, scope of work, the performance of audit work, and the value of the audit reports. Ratings are on a one to five scale with five indicating "excellent." In FY2012, the average rating from individuals who responded to the survey was 4.12.

+ 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 four Follow-ups in FY 2012. City departments had *fully* implemented or *resolved* 77 percent (goal is 75 percent) and *partially* implemented 23% (goal is 25%) of recommendations at the time of the follow-up.

When performing a follow up, 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 FY 2012.

Recommendations Implemented

**HUMAN RESOURCES DEPARTMENT
INSURANCE AND BENEFITS DIVISION
FOLLOW-UP No. 11-08-110F
ORIGINAL AUDIT DATE: 04/16/09
FOLLOW-UP DATE: 07/14/11**

Recommendation	Status of Finding
HRD-IBD should: <ul style="list-style-type: none"> Develop a process to ensure employees who are on leave without pay (LWOP) reimburse the City for insurance and benefit premiums. Review all employees on LWOP during FY08 and request reimbursement of the insurance and benefit premiums paid on their behalf by the City. Set up receivable accounts for amounts owed to the City. 	
HRD-IBD should develop written policies to physically safeguard employee benefit files.	
HRD-IBD should complete periodic audits of intergovernmental agencies (IA) as required by the IA agreements.	
HRD-IBD should ensure intergovernmental agencies' annual fees are billed and collected by the City in a timely manner.	
HRD-IBD should ensure personnel do not accept and/or forward premium payments received from the intergovernmental agencies.	

**DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES
LODGERS TAX
FOLLOW-UP No. 12-07-102F
ORIGINAL AUDIT DATE: 11/28/07
FOLLOW-UP DATE: 10/18/11**










Recommendation	Status of Finding
DFAS – Treasury Division should: <ul style="list-style-type: none"> Collect penalties and back taxes from the facilities tested. Impose late penalties and interest on facilities that do not meet the established due date. Review the Lodgers Tax Ordinance and verify compliance with all aspects. 	
DFAS – Treasury Division should retain documentation of the required annual audits performed.	
DFAS should ensure proper separation of duties for collecting and posting revenue, and reviewing delinquent accounts.	
DFAS should ensure that delinquency notices are sent in accordance with Treasury's procedures manual.	

 Fully Implemented
 Resolved
 Partially Implemented
 Not Implemented

IMPLEMENTATION OF RECOMMENDATIONS - CONTINUED

DEPARTMENT OF MUNICIPAL DEVELOPMENT PARKING DIVISION

FOLLOW-UP No. 12-10-104F
ORIGINAL AUDIT DATE: 10/06/10
FOLLOW-UP DATE: 2/6/12

Recommendation	Status of Finding
DMD – Parking should ensure that internal procedures to review authorized parking access and accurate parking fee payments are performed regularly and that exceptions are researched and adequately documented.	
The CAO should: <ul style="list-style-type: none"> Clarify the administration's intent concerning preemption of the parking waiting lists as described in AI No. 8-11. Review the implications of City-paid parking benefits for a select group of employees and implement a policy to ensure that benefits are administered equitably. DMD should ensure: <ul style="list-style-type: none"> Preemptions to the waiting list are adequately documented and allowable under AI No. 8-11. Exceptions to AI No. 2-12 are properly documented. 	
DMD – Parking should ensure that internal accounts receivable policies and procedures comply with AI No. 2-2.	
DMD – Parking should ensure that cash handlers' training is renewed every three years.	
DMD – Parking should implement procedures to ensure that parking revenue is recorded in accordance with Generally Accepted Accounting Principles.	
DMD – Parking should coordinate with DFAS – Central Payroll to develop an efficient process for refunds or reimbursements of employee pre-tax payroll deductions for monthly parking fees.	
The CAO should ensure that City paid parking benefits are reported to DFAS – Central Payroll for income tax reporting.	
DMD – Parking should prepare all required documentation of the Parkeon purchase to the Technical Review Committee and Information Services Committee, and ensure that all future technology purchases are made in compliance with policies and procedures.	
The CAO should either require compliance with Ordinance §2-6-3-1 D or recommend that this requirement be rescinded.	



Fully Implemented



Resolved



Partially Implemented



Not Implemented




IMPLEMENTATION OF RECOMMENDATIONS - CONTINUED

DEPARTMENT OF SENIOR AFFAIRS PAYROLL AUDIT

FOLLOW-UP No. 11-07-109F

ORIGINAL AUDIT DATE: 05/30/07

FOLLOW-UP DATE: 08/22/11

Recommendation	Status of Finding
DSA should reassign duties so that the same individuals do not have conflicting duties for the recordkeeping and custody of assets.	
DSA should routinely review the information on the DFAS Treasury's Department Financial ID Card Holders Listing to ensure the information is correct.	
DSA should update employee applications annually for outside employment in compliance with Personnel Rules and Regulations.	



Fully Implemented



Resolved



Partially Implemented



Not Implemented

STAFF

There were seven full-time budgeted positions in the OIA program strategy for FY2012. Several staffing changes occurred during the year. The FY2012 budget restored one auditor position. The Internal Audit Assistant position performs functions for OIA and the Office of the Inspector General.



STAFF – CONTINUED

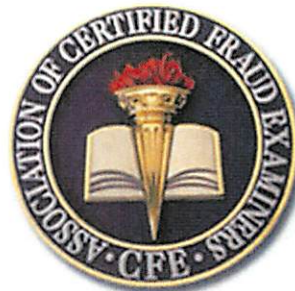
OIA staff members are well qualified and hold numerous professional certifications including:

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



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. Havelman – 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, CGAP and CFE. Carmen served on the FY11/12 IIA – Albuquerque Chapter Board of Governors, 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.

Lew Witz, Senior Information Systems Auditor

Lew joined OIA in 2012. Lew's professional experience includes over 12 years in information technology, as a programmer/analyst, systems administrator and IT manager. Lew also has experience in audit and assurance, including seven years internal audit experience in the financial services industry and three years public accounting experience. He holds a Bachelor of Science in Computer Science from the College of Santa Fe and a Masters of Business Administration from the University of New Mexico, Anderson School of Management. Lew is a CPA, CISA, CIA, CMA, CFE and CRISC, and is currently serving as President of New Mexico ISACA.

STAFF – CONTINUED

Lawrence Davis – Principal Auditor

Lawrence has over eight years of audit and accounting experience. He has a diverse background from both private and public sectors. He received his BBA and MBA from the University of New Mexico – Robert O. Anderson School of Management with concentrations in accounting and finance respectively. Lawrence previously worked for the performance evaluation unit of the New Mexico Legislative Finance Committee.

Christina M. Owens, Contract Auditor

Christina has over 13 years of audit and investigative experience in the private and governmental sectors. She is a graduate of the University of New Mexico – Robert O. Anderson School of Management and holds a Bachelor of Business Administration degree with an accounting concentration as well as a Master of Business Administration degree. Christina is a CPA licensed in the state of New Mexico and is also a CFE, CGAP, and CFF.

Josh L. Munoz, Staff Auditor

Josh has over five years of experience in public accounting. He provided consulting, audit and accounting services to a variety of clients, including tribal governments and related organizations, financial institutions, and construction authorities. He graduated from New Mexico State University with a Bachelors of Accountancy. Josh is a CPA licensed in the state of New Mexico.

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 can 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	9/1/2014	Management
Harry L. Tipton (Chair)	9/1/2012	At-large
Craig G. Colter	9/1/2012	At-large

