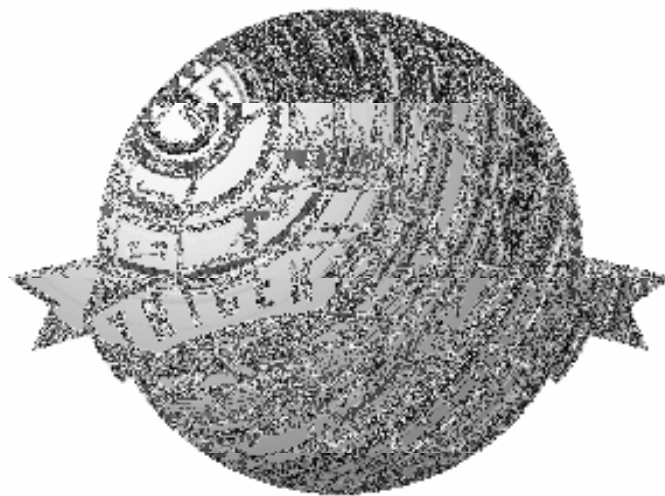


City of Albuquerque

Office of Internal Audit and Investigations



Fiscal Year 2007 Annual Report

July 1, 2006 through June 30, 2007

Office of Internal Audit and Investigations
Fiscal Year 2007 Annual Report
July 1, 2006 through June 30, 2007

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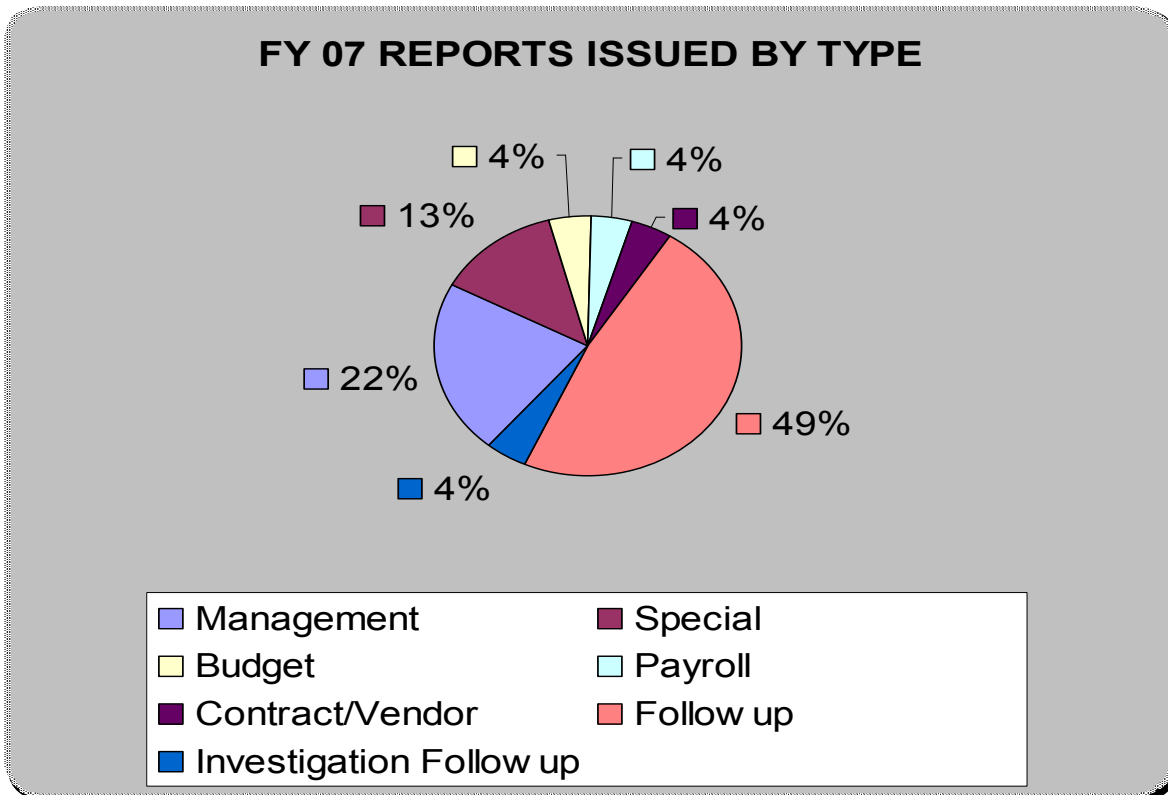
Office of Internal Audit and Investigations
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SUMMARY OF THE YEAR

Reports

The Office of Internal Audit and Investigations (OIAI) issued 11 final audit reports in Fiscal Year (FY) 2007. Five reports dealt directly with City management of programs and were included in the annual audit plan. Three of the reports were the result of special requests for audits from the Administration and City Council. The department issued one quarterly budget report. One payroll audit was completed. One vendor was audited for compliance with its City contract. In addition, there were numerous audits in process at year-end that will be issued in FY08.

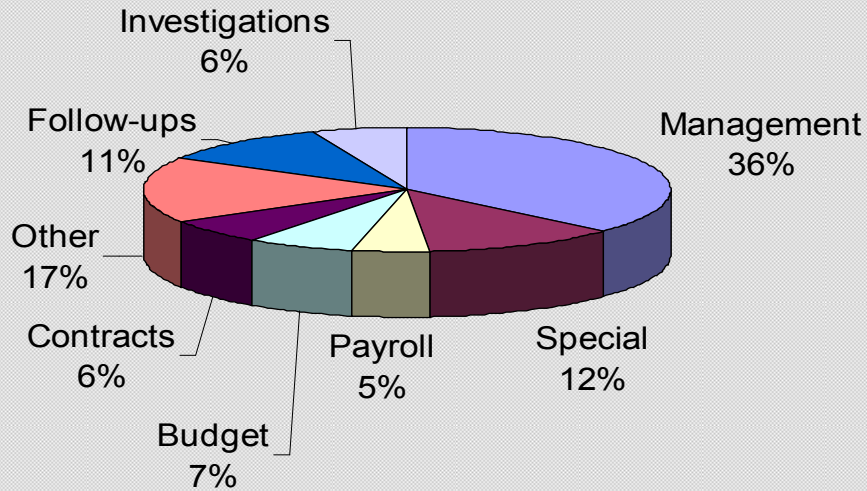
OIAI completed 11 follow-up reports, including one investigation follow-up during FY07. Several follow-ups were also in process at year-end.



**AUDIT HOURS BY TYPE
FY 07**

Type of Audit	Audit Hours	Prior Year Actual Audit Hours	% Variance From Prior Year
Management	3,892	4,329	-10%
Other	1,785	573	211%
Special	1,284	1,604	-20%
Follow-ups	1,169	728	61%
Budget	716	936	-24%
Contracts	684	131	422%
Investigations	614	482	27%
Payroll	502	361	39%
Cash	0	250	-100%
Total	10,646	9,394	13%

FY 07 AUDIT HOURS BY TYPE



**DEPARTMENT AND AUDIT HOUR DETAIL
FY07**

<u>Department / Audit</u>	<u>Audit Hours</u>	<u>Department Total</u>
ABQ Ride		
Parsons Vendor Audit	367	
Investigations	145	
Payroll Follow-up	89	
Transit Revenue Follow-up	43	
Westside Transit Facility	14	658
Albuquerque Police Department		
System Procurement & Integration Follow up	155	
Expenditure Follow-up	65	220
Aviation Department		
Revenue & Revenue Contracts Follow-up	154	154
Council Services Department		
Investigation	18	
Special Department Audit	12	30
City Wide		
Purchasing Card	810	
Quarter Cent Tax	398	
Year-End Close	359	
Quarterly Reports	357	
Corporate Express	309	
City Architectual Contracts	90	
Safe Traffic Operations Program	75	
Downtown Action Team – HDIC Follow-ups	48	
Computer Inventory Follow-up	15	2,461
Cultural Services Department		
Zoo Train Follow-up	32	32
Department of Family and Community Services		
Youth Services and Community Centers	279	
Housing	246	525
Department of Finance and Administrative Services		
Accounts Payable	850	
City Operator Permits	649	
Lodger’s Tax	484	
Treasury Division Follow-up	71	2,054

**DEPARTMENT AND AUDIT HOUR DETAIL
FY07**

<u>Department / Audit</u>	<u>Audit Hours</u>	<u>Department Total</u>
Department of Municipal Development		
Utility Billing Process	150	
Bike and Trail Funding	120	
Tri-centennial Towers Follow-up	106	
Parks Development Process Follow-up	80	
Investigation	16	472
Department of Senior Affairs	498	498
Payroll		
Environmental Health Department		
Expenditure Follow-up	146	
Investigation	27	173
Human Resources Department		
Payroll Follow-up	51	51
Legal Department		
Franchise Fees	405	
Payroll Follow-up	93	498
Mayor CAO Department		
Payroll Audit	3	3
Parks and Recreation Department		
Personnel Practices	20	20
Planning Department		
Building Inspections and Permits	275	275
Solid Waste Management Department		
Investigations	428	
Commercial Collections	294	
Driver Incentive Follow-up	7	729
Other	1,793	1,793
Total	<u>10,646</u>	<u>10,646</u>

Special Projects

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

- **Alvarado Transportation Task Force Meetings**

At the request of Council, the Director participates on a Committee that is charged with making recommendations to the City Council on Alvarado Transportation Center Projects.

- **Information Systems Meetings**

At the request of the Administration, the Audit Manager (formerly the Information Systems Auditor) attended the following regularly scheduled meetings throughout the year: Policy Procedure and Standards Group (PPSG), Technical Review Committee (TRC) and Information Technology Users Group (ITUG).

- **Chief Administrative Officer Budget Hearings**

At the invitation of the Administration, the Budget Auditor attended the FY07 department budget hearings and the FY07 1st quarter budget reviews held with the Office of Management and Budget.

- **Parks and Recreation Department Cost Proposal**

At the request of the Administration, the Budget Auditor reviewed the cost proposal section of the Parks and Recreation Department's response to the Aviation's Department Request for Proposal (RFP) for landscape services at the airport. The RFP was reviewed for accuracy and completeness. The RFP was subsequently cancelled by the Aviation Department.

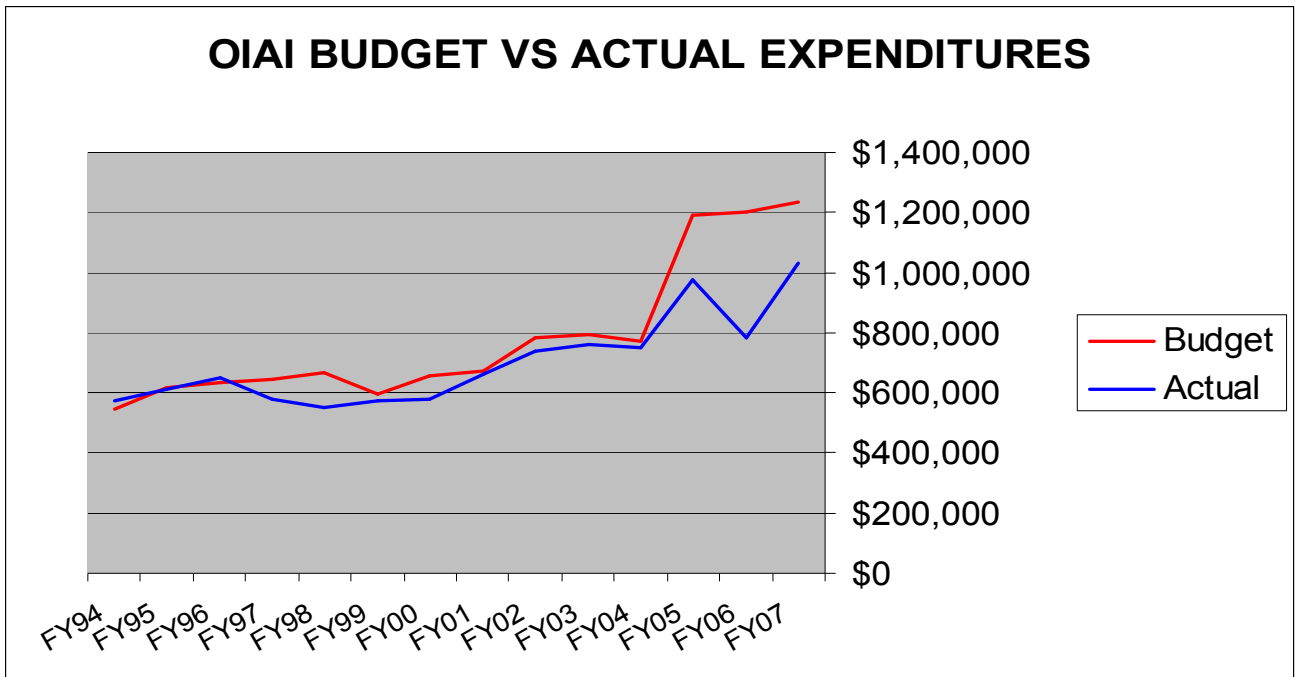
- **FY06 City Comprehensive Annual Financial Report (CAFR)**

OIAI assisted the Department of Finance and Administrative Services (DFAS) – Accounting Division, with the preparation of two funds for the FY06 Annual CAFR. The Audit Manager and a Principle Auditor provided accounting services to assist Accounting with the CAFR while they were short staffed.

The Director attended meetings with the Budget Officer, Chief Financial Officer and members of the Accounting staff to follow the progress of the preparation of the FY06 Annual CAFR.

Budget

In FY06, the OIAI consisted of two program strategies, Internal Audit and Inspector General. In FY07, OIAI was budgeted as one program strategy, with two separate activities (Internal Audit and Inspector General.) The FY07 budget for the program as a whole was \$1,234,000. Expenditures for the year were approximately \$1,029,000*. The chart below contains budget and actual expenditure comparison for previous years.



*Note: Beginning in FY05, the budget contains funding for the Inspector General function.
Actual expenditures for FY07 are approximate, as they are unadjusted and unaudited.

In FY07, the Internal Audit program underspent its budget by \$205,000* or 17%. This was primarily due to salary savings as a result of vacant positions.

Staffing

There were 14 full-time budgeted positions in the Internal Audit program strategy. Several staffing changes occurred in FY07. The Information Systems Auditor was promoted to Audit Manager in September 2006. The Budget Auditor and a Principal Auditor position were filled in October 2006. The Inspector General was hired in January 2007. A Senior Auditor position was also filled in January 2007; however, this individual left OIAI in May 2007. Another Senior Auditor retired in June 2007. The following vacancies existed at June 30, 2007:

- Information Systems Auditor (M – 17)
- Audit Supervisor (M – 17)
- 2 Senior Auditors (M – 15)

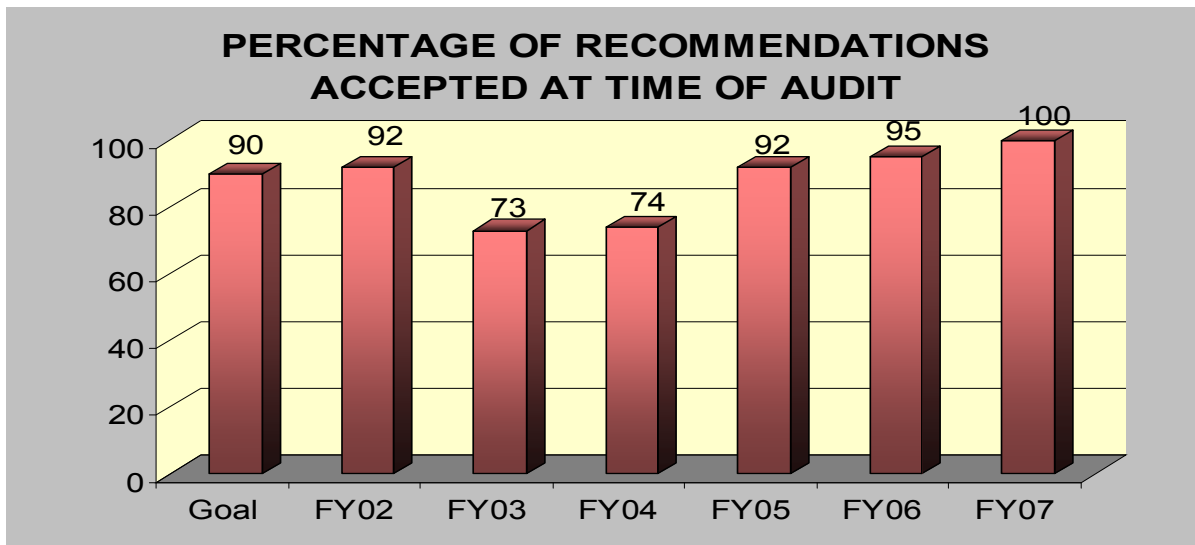
Performance Measures – Internal Audit

The Program Strategy for OIAI is to enhance public confidence and promote efficiency, effectiveness, accountability and integrity in City government by ensuring (1) ensuring compliance with City ordinances, resolutions, rules, regulations and policies. (2) recommending operational improvements and service measurement integrity (3) investigating complaints of fraud, waste, and abuse and (4) recommending programs/policies which educate and raise the awareness of all City officials and employees.

The OIAI Program Strategy is a part of the City’s Goal 8, Government Excellence and Effectiveness.

The FY07 strategy outcome and performance measures are as follows:

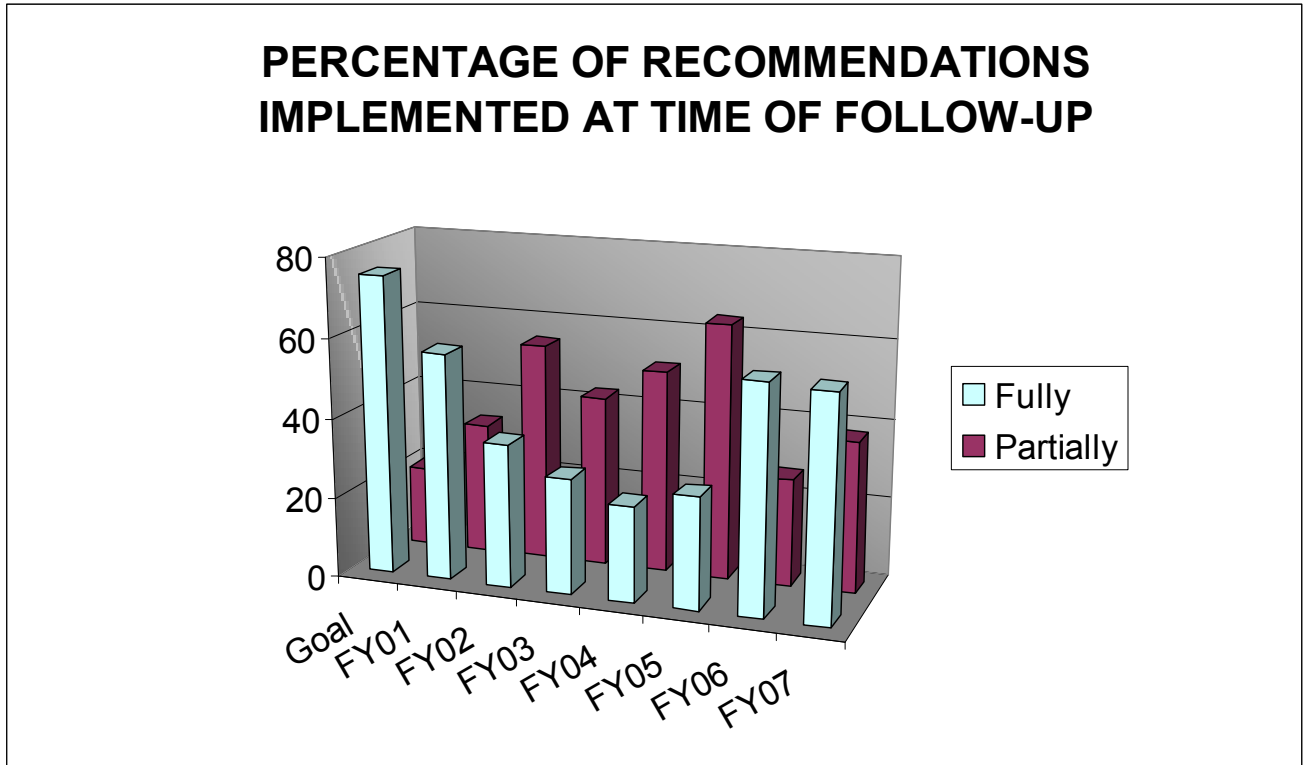
Strategy Outcome: Improve the operational efficiency of departments through acceptance of audit recommendations. Operations will be improved if the audited departments and programs accept the recommendations made as valid and useful during the audit process.



In FY07, OIAI achieved a perfect 100% on the percentage recommendations being accepted at the time of the audit. Ninety-eight percent of the recommendations were fully accepted and two percent were 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 – Internal Audit - Continued

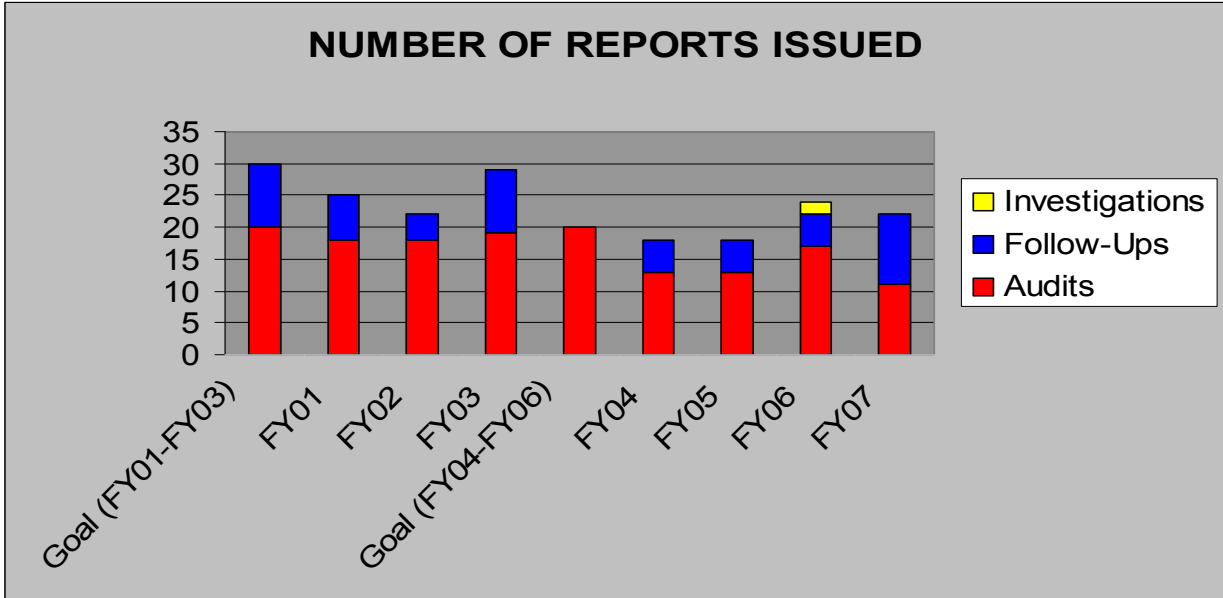
Strategy Outcome: Improve the operational efficiency of departments through their implementation of audit recommendations. Follow-up reviews are generally conducted within two years after the audit is completed.



In FY07, City departments had fully implemented 56% of recommendations, and partially implemented 38% of the recommendations at the time of the follow-ups. The partially implemented portion (38%) of the goal was achieved; however, the fully implemented portion did not reach the 75% goal. FYs 06 and 07 did show a significant improvement over prior years.

Performance Measures – Internal Audit - Continued

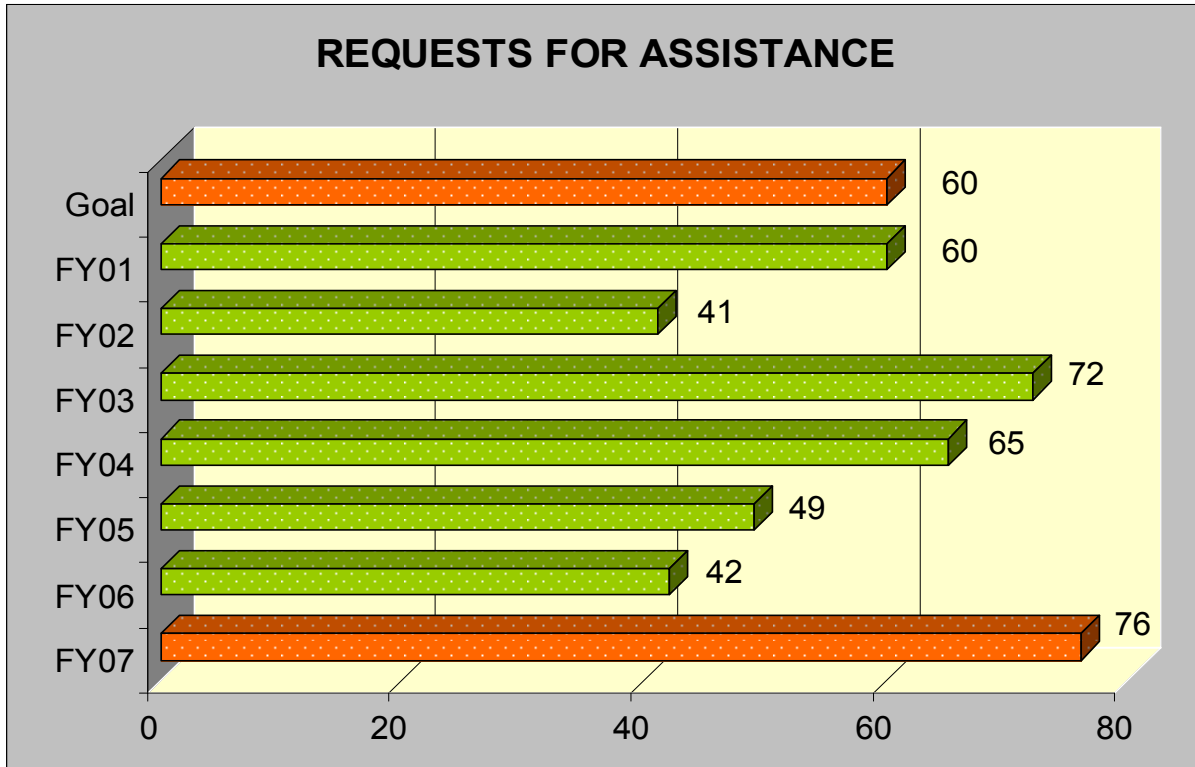
Output Measure: Complete Management, Vendor/Contract, Payroll and Cash Handling audits with recommendations for improving City operations, programs and contract management.



The goal for the number of audits to be completed each year was decreased in FY03 from 25 to 20, to reflect the increased complexity of the audits being conducted. Twenty-two reports were finalized in FY07, exceeding the FY07 goal. The 22 reports consisted of eleven audits, eleven follow-ups, one of which was a follow-up of an investigation conducted in FY06. Staffing levels and complexity of audits have a direct affect on achieving this measure.

Performance Measures – Internal Audit - 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.

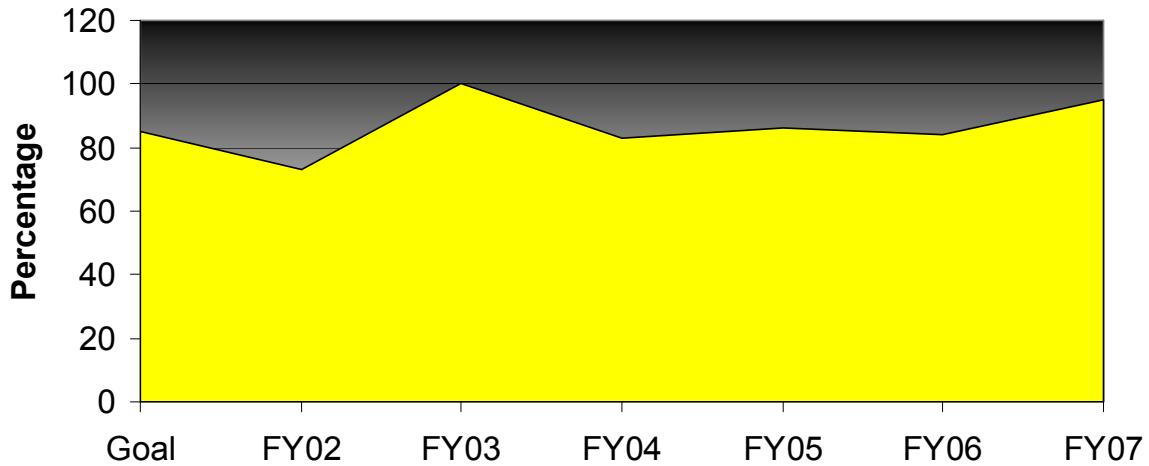


OIAI exceeded the goal of 60 requests for assistance in FY07, reaching the highest level in seven years. OIAI considers this goal to be one of our most important, as we encourage City departments to consider our office a resource for assistance and direction. This is a performance measure that is strongly emphasized in staff meetings throughout the year.

Performance Measures – Internal Audit - 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.

AUDITEE RESPONDED THAT AUDIT ADDED VALUE

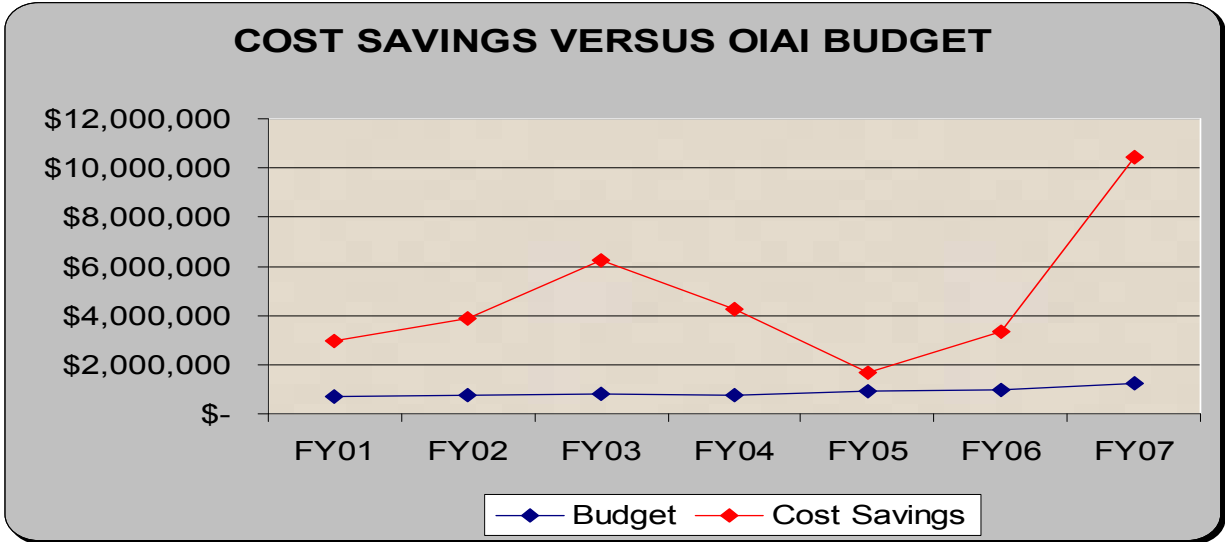


OIAI requests end-of-audit surveys to be completed by the audited departments. The audited departments are asked to rate the professional proficiency of the auditors, scope of work, performance of audit work, and the value of the audit reports. Ratings are on a one to five scale with five indicating “excellent.”

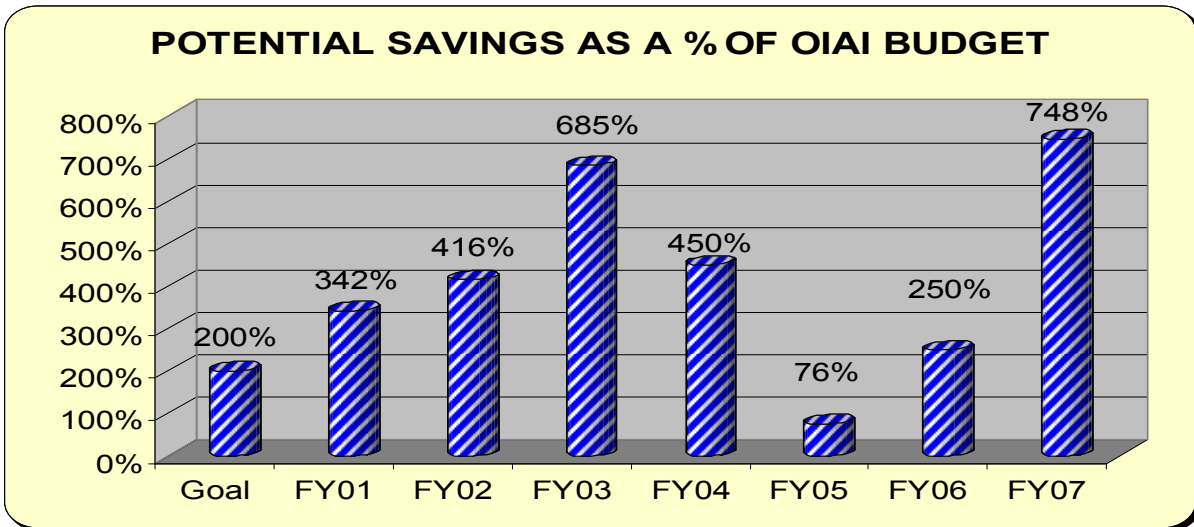
The after-audit survey scores from auditees have improved every year since FY04. In FY07, 95% of respondents felt the audit added value to their respective activity, program or department. The overall number of surveys received from auditees has decreased in recent years, OIAI is brainstorming ways to increase the number of surveys returned.

Performance Measures – Internal Audit - Continued

Quality Measure: Citywide savings and increases to revenues as a percentage of the OIAI’s approved final budget.



A conservative estimate of \$7,024,364 of nonrecurring and \$2,201,000 of recurring annual reductions in expenditures, avoided costs and increases in revenues which the City could realize with the implementation of FY07 audit recommendations. The majority of the cost savings (96%) was from one audit which involved park development fees. 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.

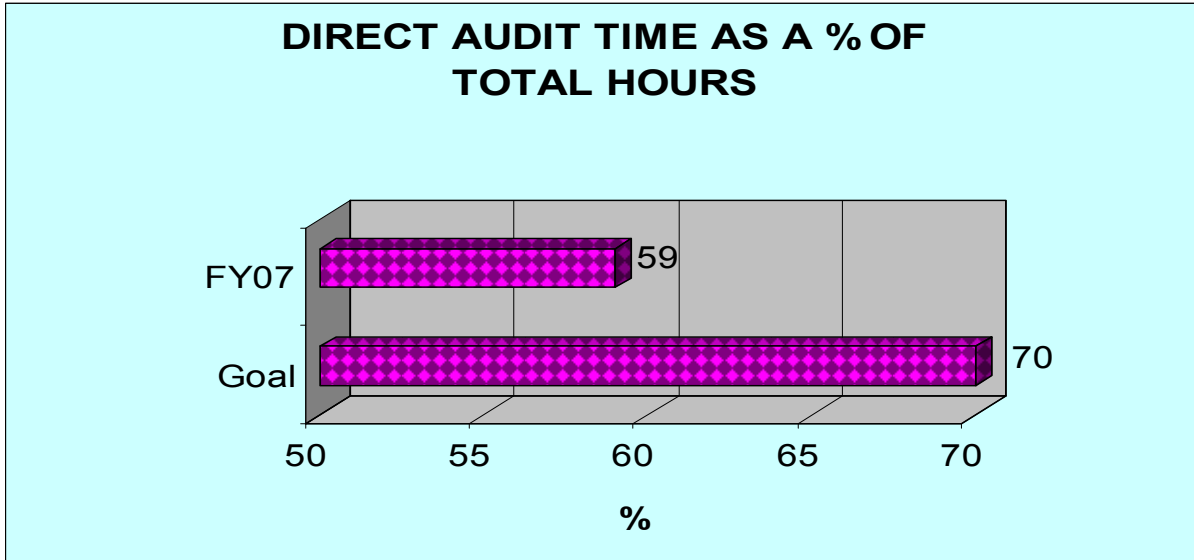


In FY07, the projected savings from audit recommendations in relation to the Department’s total expenditures was 748% which greatly exceeded the goal of 200%.

Performance Measures – Internal Audit - Continued

The following measures were new in FY07:

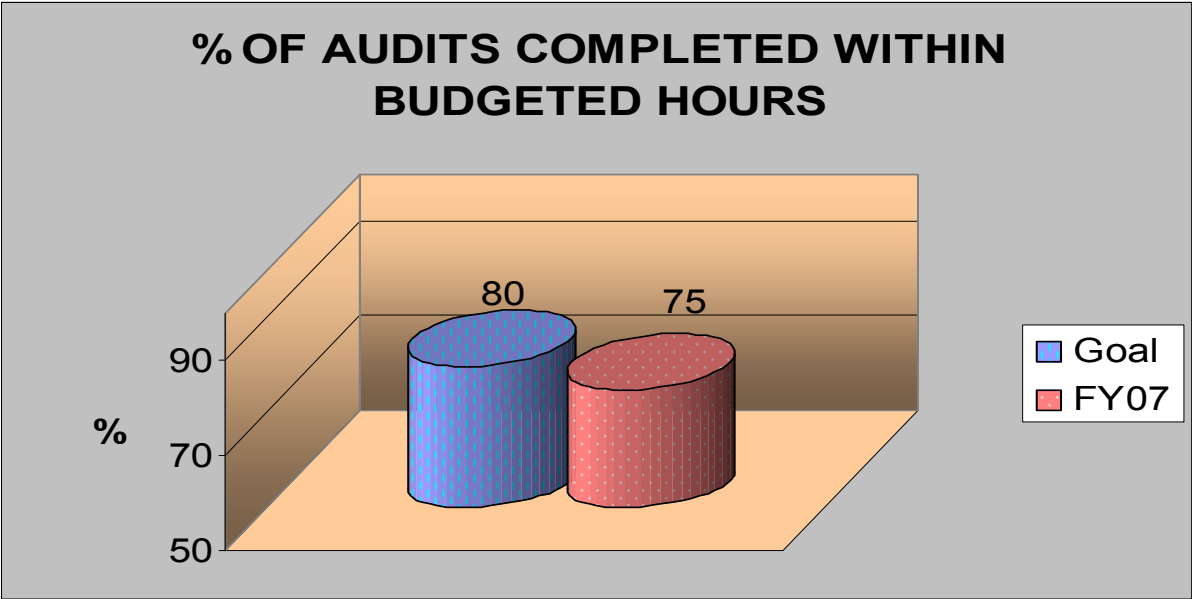
Quality Measure: Billed auditor time compared to total time.



Direct audit time includes time coded to the following categories in the timekeeping system: Planning/Organizing, Fieldwork, Supervision/Review and Complete Audit. As this is a new measure for FY07, OIAI will continue to assess if the goal of 70% is realistic. OIAI also performs many miscellaneous audit-related tasks and management advisory services, which are not included in the totals above.

Performance Measures – Internal Audit - Continued

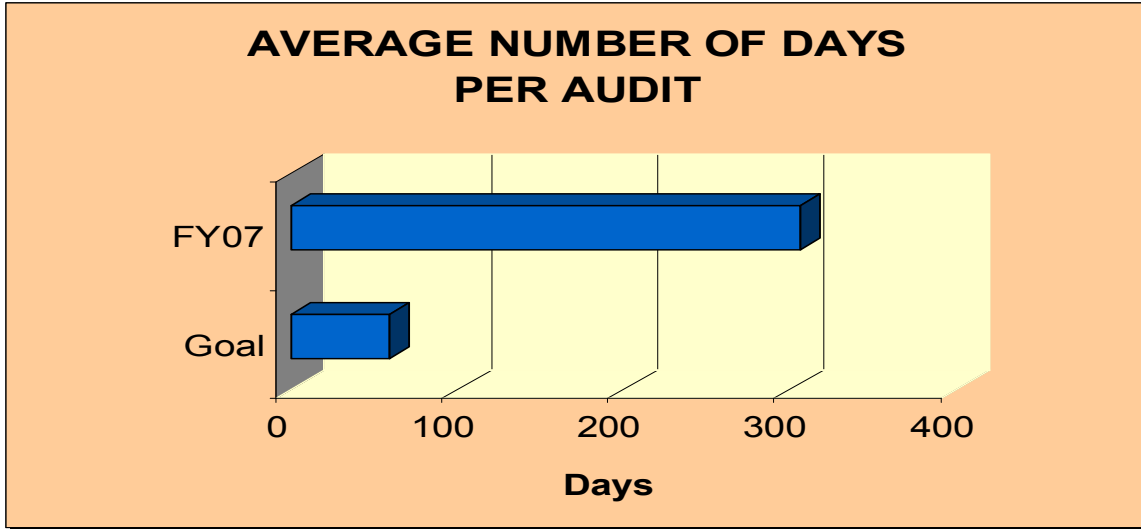
Quality Measure: Percent of audits performed within the budgeted hours.



Time budgets are prepared for every audit assignment. Audits are considered within budget if completed within 125% of the assigned hours. Auditors are instructed to monitor their individual project budgets and request an increase, if necessary. In FY07, 75% of audits were completed within the budgeted hours.

Performance Measures – Internal Audit - Continued

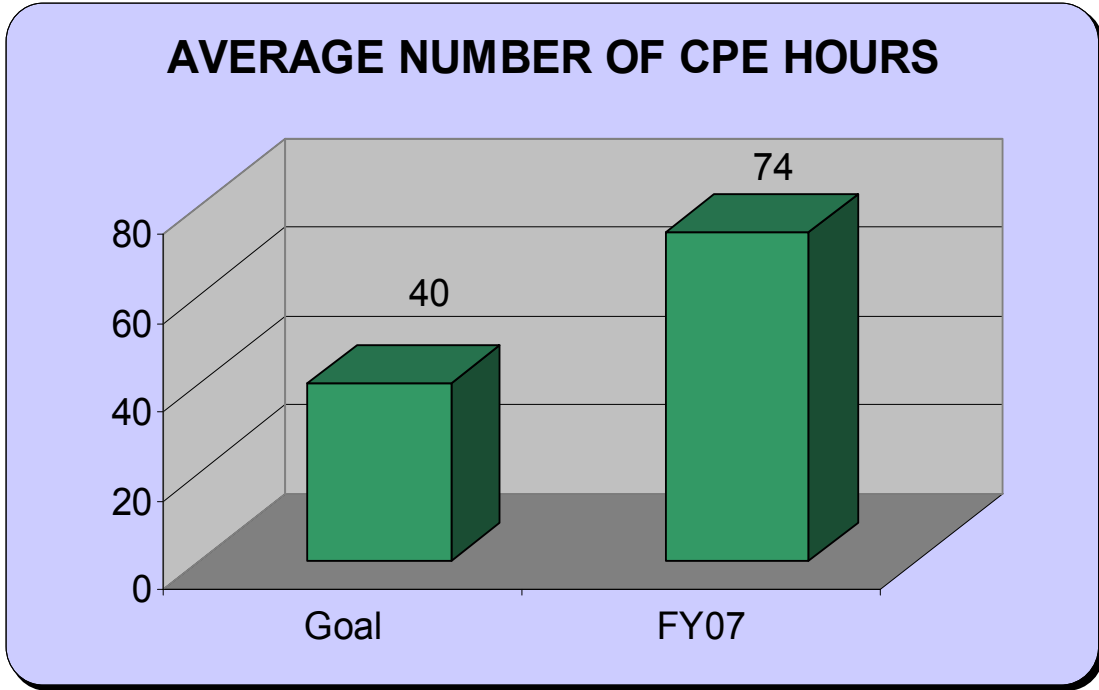
Quality Measure: Average number of staff days per audit.



OIAI set a goal of 60 days for the average amount of time spent on each audit, from assignment of the project to completion and report issuance. In FY07, audit length averaged 307 days. Several of the audits issued in FY07, spanned a two year period. OIAI has significantly reduced its back-log of audits in the review que. OIAI will strive to reduce the time period each audit spans. This was a new measure for FY07. The goal of 60 days is not realistic. The measure will be adjusted for the FY09 Performance Plan to reflect a realistic number of days.

Performance Measures – Internal Audit - Continued

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



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

On average, OIAI staff received 74 hours of CPE during FY07, greatly exceeding the goal of 40 hours. As OIAI experienced salary savings during FY07, staff attended additional training opportunities.

Performance Measures – Inspector General

The Inspector General position is vacant as of July 27, 2007. One investigation was completed in July 2007 and five investigations are in process.

OIAI Staff

The audit staff attended training throughout the year to enhance and expand their skills. The training included courses in government accounting, ethics, performance budgeting and auditing, internal control framework, fraud and assorted audit related luncheon topics. The audit staff members each met the continuing educational requirements to maintain their professional certifications and the training requirements of Government Auditing Standards.

All of the audit staff members are CPAs. In addition, a number of other certifications are held by various staff members including:

- (2) Computer Information Systems Auditor (CISA)
- (1) Certified Internal Auditor (CIA)
- (1) Certified Government Auditing Professional (CGAP)
- (1) Certified Fraud Examiner (CFE)
- (1) Certified Management Accountant (CMA)
- (1) Certified Financial Manager (CFM)
- (1) Certified Information Systems Professional (CISP)

The Staff is active in professional organizations including:

- The Institute of Internal Auditors (IIA)
- The Association of Local Government Auditors (ALGA)
- The Association of Government Accountants (AGA)
- Association of Certified Fraud Examiners (ACFE)
- Institute of Management Accountants (IMA)
- 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)
- The Association of Latino Professionals in Finance and Accounting (ALPFA)

The OIAI staff is dedicated to improving the City and the community. Department employees actively participate in both City and community service activities. OIAI had 100% participation in the 2007 United Way campaign. Two employees regularly participate in City blood drives. One staff member actively supports the Boy Scouts of America. One OIAI staff members serves as the Treasurer on the Board of a local non-profit pre-school. One staff member is a member of the Finance Committee for their church.

OIAI Staff - Continued

One staff member was the Treasurer for the Albuquerque Chapter of the IIA during FY07. Two staff members served on the IIA Board of Governors. Another staff member is the President of the IMA Rocky Mountain Regional Council. One staff member was part of a team that conducted an ALGA Peer Review for Kansas City. This staff member also serves on the Albuquerque Public Schools Audit Committee.

One OIAI staff member was selected to participate in the City’s FY07 Pre-Management Development Program. He graduated from the program “With Distinction”. This intensive nine month program provides two years of supervisory experience credit within the City.

OUTLOOK FOR FY 2008

OIAI’s first peer review will be performed by ALGA members and is scheduled for September 17 – 21, 2007.

Several personnel changes have occurred since the end of FY07:

- The Information Systems Auditor position was advertised in July 2007. There were 18 applicants, none of which met the qualifications of the position. It was re-advertised September 2, 2007 and will remain open for 30 days.
- The Inspector General position is vacant. The advertising and hiring process began September 2, 2007.

In FY08, the Internal Audit and Inspector General activities will remain in one program for budgetary purposes.

	Amount	Percentage
Salaries	\$1,233,419	94%
Operating	\$69,064	5%
Transfers	\$1,517	1%
TOTAL	\$ 1,304,000	100%

The Department will continue to work with the City Council and 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.