



Office of the City Auditor

INFORMATION CALENDAR

September 13, 2018

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: City Auditor's Report on Results Fiscal Year 2018

INTRODUCTION

The aim of the City's Auditor's Office is to monitor the effectiveness, efficiency, and equity of City programs, and make recommendations that assist City management in improving operations and program delivery. We are pleased to share the attached report summarizing our success and our efforts to continuously improve City services in fiscal year 2018.¹

CURRENT SITUATION AND ITS EFFECTS

In fiscal year 2018, the City Auditor's Office issued 11 reports to Council, including six audits containing 57 recommendations for City operational improvement and program achievement. The accompanying report highlights our audits, our achievement in improving our own payroll operations, and Council's action to protect the City's future by funding the General Fund Reserves. That action stemmed from our fiscal year 2016 audit recommendation to implement a stronger reserves policy. We also highlight City management's progress in implementing our audit recommendations and three consistent areas of risk impacting City operations: capacity, access, and unclear expectations.

Areas of Continuous Risk

Workload Capacity

City management has yet to take action on 117 of our audit recommendations, some of which date back to fiscal year 2009. There are varying reasons for the delay, including and especially workload capacity. With competing priorities, shrinking budgets, and staffing turnover, the ability to find the time to make necessary improvements is pushed further into the future as the need to address other pressing matters with limited resources takes the forefront.

Recognizing this constraint, we have been conducting workload capacity audits to understand the extent of this risk and how it threatens City operations and goal achievement. In our Code Enforcement Unit audit, we learned that staff workload is expanding while that staffing levels remain stagnant.² We are seeing similar patterns in our public safety dispatch and fire prevention inspection audits, which are currently underway and expected to be released in fiscal year 2019.

Written and Clear Guidance

For a quarter of a century, almost every audit issued by the City Auditor's Office has included a recommendation to update or develop written procedural guidance. This theme continues. On many occasions, the significance of needing those procedures was not understood by those doing the work or those in charge. Clearly written policies and procedures allow management to guide operations and allow employees to understand their roles and responsibilities. In the past few years, as the City has experienced significant staff turnover, we have seen firsthand the implications of failing to have adequate written guidance. We have found that many new employees come onboard with an unclear understanding of what's expected of them and limited information on the tools they need to perform their work. Worse, there have been lapses in operations because no one was aware a task or how to complete the work.

System Access

Another recurring theme in many of our audits is the lack of system access controls. It is through these controls that management is able to regulate who may view, enter, and edit data. With the City's current financial system, more often than not, management is unable to determine staff access to critical data. Access is often excessive with many people having incompatible system access. The implementation of the City's new financial system, ERMA, is expected to assist in this area. However, the system alone is not the reason for the lapse in access controls. It is imperative that management understand their role in providing, monitoring, and removing system access, and implementing procedures to ensure data reliability and reduce the risk of fraud.

BACKGROUND

The mission of the City Auditor's Office is to be a catalyst for improving City government. Our audits, conducted in accordance with government auditing standards, provide the City Manager, City Council, and the public with objective, timely, and accurate information about City program performance. By providing this information and making recommendations for improvement, we help hold government accountable in its stewardship of public resources.

ENVIRONMENTAL SUSTAINABILITY

Our office manages and stores audit workpapers and other documents electronically to significantly reduce our use of paper and ink. Although some of the audits we issue do include information about specific environmental impacts, this particular report has no identifiable environmental effects or opportunities associated with it.

POSSIBLE FUTURE ACTION

Council asks the City Manager to report back on progress made on audits until all recommendations have been fully implemented or the recommendations cleared by alternative actions. Reporting to Council on progress made is essential so that Council can become aware of potential needs for additional resources, improved software, and consistent priority-setting, which frequently involves Council action.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The City Manager's reports to Council should provide more specific information about the resources used, and the resources and priority setting needed from Council in order to implement recommendations made in our audits.

CONTACT PERSON

Ann-Marie Hogan, City Auditor, City Auditor's Office, 510-981-6750

Attachments:

1: City Auditor's Report on Results Fiscal Year 2018

¹ The City Auditor's Report on Results Fiscal Year 2018 (Issued 9/13/18):
https://www.cityofberkeley.info/Auditor/Home/Audit_Reports.aspx

² Code Enforcement Resources Significantly Constrained and Improvements Needed in Case Management and Oversight (Issued 6/26/18): <http://bit.ly/2LW49BF>



Ann-Marie Hogan
City Auditor

CITY AUDITOR'S REPORT ON RESULTS

IN FY 2018, WE ISSUED...

11 Reports to Council

6 Audits

57 New Recommendations

THE MISSION OF THE CITY AUDITOR'S OFFICE IS TO BE A CATALYST FOR IMPROVING CITY GOVERNMENT. Our audits, conducted in accordance with Government Auditing Standards, provide the City Manager, City Council, and the public with objective, timely, and accurate information about City program performance. By providing this information and making recommendations for improvement, we help hold government accountable in its stewardship of public resources.

In FY 2018, the City Auditor's Office issued 11 reports to Council including 6 audit reports containing 57 new audit recommendations. Through our extensive follow-up efforts, we also worked with city management to ensure they reported to Council on their progress with implementing our audit recommendations. This effort holds management accountable for taking action.



HOW WE ADDED VALUE



PRW used the Parks Tax as voters intended

Employees used the Parks Tax to maintain City parks, trees, and landscape. A clear division of duties, appropriate restrictions to the financial system, and documentation review by knowledgeable personnel allowed PRW to ensure appropriate use of taxpayers' money.



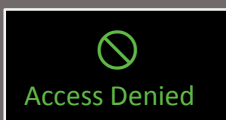
CEU resources not sufficient to meet demands for service

The Code Enforcement Unit lacks resources necessary to efficiently and effectively enforce City codes. Community complaints and staff responsibilities have increased yet staffing has remained stagnant and investment in technological improvements overlooked.



No fraud in use of credit cards but city needs to issue better guidance

Finance mitigates fraud and misuse risks commonly associated with the use of credit cards and staff used their cards appropriately with no indication of patterns of fraud or misuse. However, not all necessary procedures are in place to ensure purchasing compliance and transparency.



We addressed payroll system design flaws

Outside auditors determined our payroll processing controls are designed to protect against fraud, waste, and abuse. However, vulnerabilities in our aged payroll system undermine our efforts. We completed implementation of the outside auditor's recommendations to combat the problems until our payroll system is replaced later this year.



Vital service to vulnerable population requires stronger oversight

Easy Does It delivers critical care to severely physically disabled persons. EDI management are committed to the people they serve but significant deficiencies in operations left the agency unable to show that it had used taxpayer money as voters intended and put EDI at risk of fraud and misuse.



Use of Measure GG supports taxpayer expectations

Berkeley Fire, Public Health, and Public Works used Measure GG funds to bolster emergency response services and enhance community disaster preparedness. Staff clearly understand taxpayer intent and have practices in place to prevent unallowable expenditures.



On-call program not designed to allocate costs equitably

PRW mechanics respond to urgent calls for service to keep public buildings and facilities safe for use. Much of their work is unrelated to PRW activities, leading to inequity and unintended misallocation of funds. A cost allocation system is necessary to ensure equitable distribution of program costs.

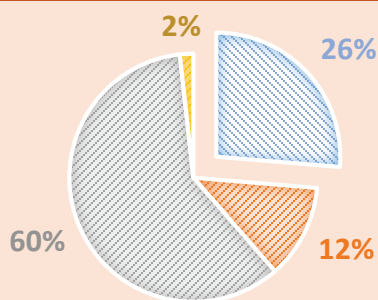


Council allocated \$371,000 to reserves to protect City's future

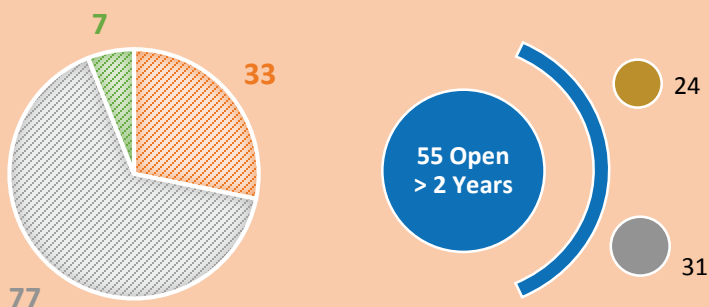
After implementing our recommendation to adopt a stronger General Fund Reserve Policy, City Council took a crucial step forward in allocating \$371,000 to fund the reserves: \$300k to the catastrophic event reserves and \$71k to the stability reserves.

SNAPSHOT OF PROGRESS MADE AND CHALLENGES AHEAD

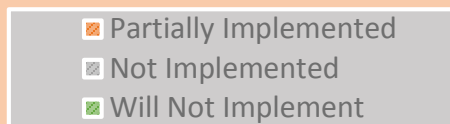
57 New Audit Recommendations FY 2018
Action Taken on 38 Percent



117 Unimplemented Recommendations
Audits Issued FY 2009-2018



- **26%** of FY 2018 recommendations to improve City performance and safeguard assets were fully implemented
- **12%** were partially implemented
- **60%** have not been implemented
- **2%** management will not implement



Full implementation is less likely for **24** partially implemented and **31** not implemented recommendations that are **over 2 years** old, resulting in lost opportunities for improvement and continued risk of fraud.

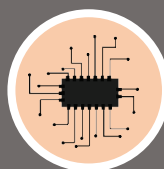
CONSISTENT AREAS OF RISK

OUR AUDITS INDICATE SYSTEMIC ISSUES THAT RESULT IN LOST OPPORTUNITIES AND RISK OF FRAUD.



Capacity restrictions threaten operations and strategic planning

Workload capacity continues to hinder staff's ability to take action on our recommendations. We launched three audits to examine this threat more closely. We have already reported that the Code Enforcement Unit is unable to keep up with an expanding workload while its staffing levels remain the same. We are seeing this issue in both our dispatch and fire prevention inspection audits.



Access risks leave systems vulnerable to fraud, misuse, and bad data

Access to software systems is commonly excessive, unknown, and unmonitored, leading to fraud and misuse risks and the use of bad data for program monitoring and performance measurement.



Unwritten and unclear expectations continue to threaten service delivery

A common theme in all our audits is a lack of clear, complete, written procedures. Well-written policies and procedures allow employees to clearly understand their roles and responsibilities.

Note from the City Auditor

“Our 2018 work made a difference because of the enthusiasm of individual City employees in embracing ideas for improving the effectiveness and efficiency of city services. Our shared successes as change agents are also due to the support for continuous improvement of City of Berkeley services from the City Council, the City leadership team, Commissioners, and people who live, work, study, and enjoy life here. Thank you!”

Ann-Marie Hogan
City Auditor 1994-2018



Office of the City Auditor Performance Audit Staff

Ann-Marie Hogan, City Auditor

Farkhad Askarov, Auditor II

Erin Mullin, Auditor I

Sheila Soo, Administrative Assistant

Claudette Biemeret, Audit Manager

Tracy Yarlott-Davis, Auditor II

Shalyn Pugh-Davis, Auditor I

CITYOFBERKELEY.INFO/AUDITOR

(510) 981-6750

AUDITOR@CITYOFBERKELEY.INFO