

City of Berkeley



City Auditor's Annual Report For Fiscal Year 2009

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¹ July 1, 2008 to June 30, 2009

City Auditor's Message

What did the auditors do in 2009? Our audits identified over 67 ways to improve City operations. The good news is that the City Manager and City staff agreed with 97% of our recommendations and pledged to take action. The bad news is that not enough action has been taken. Timely implementation declined from 52% to 17%; the lowest rate ever.

This report tells you about the work we did, and whether the departments implemented our recommendations. (See reports: [City Auditor's home page](#).) Results suggest the City is not making cost savings and risk reduction a priority, and it is important to find out why. Tough economic times are only part of the answer. Could it be that "invisible problems" caused by budget cuts are becoming more visible?

In the course of our audits, we see City employees who work hard to "do the right thing" but lack the systems, resources, and direction to achieve the very best in public service. Our audits and consulting work provide practical advice and clear direction for more efficient and effective service delivery.

We congratulate the Police Department for taking action on 100% of our 2009 audit recommendations. We also thank all the employees and managers who supported our efforts to fix some broken systems, and the public and Council Members who cheer us on. When it comes to improving City services, we're all in this together.

2009 Reports

What Happens When You Fail to Align Resources Needed with Performance Expectations?

Leases Audit

"I thank the City Auditor for this eye-opening report."

- Berkeley Resident

[Leases Audit: Conflicting Directives Hinder Contract Oversight](#) (June 2, 2009: 13% of 24 recommendations reported fully implemented as of 12/31/2009) – The disconnect between the City's lease management policies and procedures and actual staff practice citywide resulted in weak controls and missing information, and undermined the City's ability to carry out planned oversight.

We're all in This Together: Reducing Workers Compensation Costs

Workers' Comp Audit: A 5% improvement could save the City more than \$1.9 million over a five-year period.

[Workers' Compensation Costs Can Be Reduced by Improved In-House Processing and Adherence to Contract Terms](#) (June 2, 2009: 27% of 26 recommendations reported fully implemented as of 12/31/2009) – The Department of Human Resources and City employees have been successful in reducing injuries and workers' compensation costs over the past five years. Recommendations made, if implemented, will result in continued improvements in monitoring, compliance with statutory requirements, and cost containment.

Is Paying Overtime More Expensive Than Hiring More Police Officers and Dispatch Personnel?

"...audit of the Lost Time in the Police Department was exceptionally informative. The identification of the significant costs associated with comp time and the proposed savings associated with using overtime were significant."

-Council member

Audit of Police Overtime and Lost Time: Cost and Risk Can Be Reduced

(November 18, 2008: 100% of 11 recommendations report fully implemented as of 12/31/2009) – Overtime is less expensive than hiring additional staff because of the high cost of benefits. Police lost time compared favorably with other City departments in fiscal year (FY) 2007, and has declined substantially since FY 2003. Minimizing the use of compensatory time off in lieu of overtime can decrease the City's overtime costs by 50% per incident, saving about \$60 thousand annually. An incorrect interpretation of a Memorandum of Understanding provision resulted in questionable payment of double time pay. Also reported was the risk to employee safety and service delivery due to fatigue caused by excessive overtime.

Show Me the Money

Opportunities for cost savings or revenue recovery of nearly \$575,000 were identified in FY 2009 (\$457,000 recurring). Over a five-year period, the results of cost savings and revenue recovery resulting from the Workers' Compensation Audit, Police Overtime Audit, and Business License Tax Program could be over \$2.4 million.

44% increase in FY 09 billings. Since 1982 the Auditor's Office has billed over \$5 million in Business License taxes.

Business License Tax Program Audit Report Fiscal Year 2008 (June 2, 2009) –

In FY 2008, the Auditor's Office billed approximately \$96,000 in Business License tax, penalties, and interest. FY 2009 billings increased by 44% to approximately \$138,000. This is not one-time revenue, since the audited businesses will continue to pay taxes in the future. Between 1982 and 2009, auditors not only billed taxes, penalties, and interest totaling over \$5 million, but contributed to a permanent increase in annual revenues.

In FY 2010, the Auditor's Office and Finance are planning a joint effort aimed at increasing Business License tax revenues by identifying unlicensed businesses and billing them for unpaid Business License tax, penalties, and interest.

Surprise Cash Count - Transfer Station Receipts: Additional Improvements Needed

(November 18, 2008: None of 6 recommendations reported implemented) – Internal controls over cash receipts and cash handling at the Transfer Station's Scale House appeared to have significantly improved since the cash receipts/cash handling audit performed in FY 2003. More improvements can be made.

Surprise cash counts address the risk of lost cash and damage to the City's ethical standards and public trust. City employees have the responsibility of handling money at over 90 locations in the City. According to our 2002 survey, amounts handled annually may range from less than \$1,000 to more than \$20 million.

Risk Reduction: Payroll, Contracts, and Selected Payments

In addition to performance audit responsibilities, the City Charter gives the City Auditor a special role in reducing the risk of management override of internal controls by granting oversight over payroll and other payments. Over 50,000 biweekly payroll checks are issued annually.

In 2009, Payroll Audit worked closely with Human Resources to reduce inefficiencies in employee transaction processing. The result was a significant reduction in errors and in duplication of work, as well as decreased risk of overpayments or underpayments to City employees.

The Charter also requires the Auditor to countersign and register all contracts. During FY 2009, 545 contracts and contract amendments were reviewed and registered. Audit staff are working to address inefficiencies in contract and payment approvals.

Safeguarding Assets, Preventing Fraud, and Measuring Performance: Citywide Training

Since 1993, 981 City employees have received fraud prevention training.

During FY 2009, we presented our *Internal Controls for City Staff: Safeguarding Assets, Preventing Fraud, and Measuring Performance* training on internal controls and fraud prevention to 194 City employees, including 166 Police Department staff.

City Auditor Discussions with Mayor and Council: Budget, Internal Controls, and Outstanding Audit Recommendations

Budget Transparency, Internal Controls, and Delayed Action on Audits (March 24, 2009) – Are budget cuts causing delayed action on audits? 85 audit recommendations had not been implemented in March 2009². Council reiterated direction that annual budget submissions must disclose internal control impacts of cuts. Replacement of the City's financial software, FUND\$, was also discussed. Council Discussion (item 26) video.

City Auditor's FY 2008 Annual Report and Council Presentation (December 8, 2008) – In January of 2008, there were 126 outstanding audit recommendations. Staff took action to implement recommendations more timely in FY 2008; by October 2008 there were only 73 outstanding audit recommendations². Mayor Bates and Council expressed appreciation for the cost savings and increased revenue identified, and discussed their interest in having the City provide a cost/benefit analysis of replacing the City's financial software. Council discussion (item 18) video.

² As of December 31, 2009, there are 137 outstanding audit recommendations.

City Auditor's Budget Discussion (February 10, 2009) - When “across the board” cuts are applied to direct services, the impact on service is visible in terms of delayed response or shorter service hours. When equivalent cuts are taken to oversight and support functions, the City takes on greater risk. The impact may be invisible in the short term, but eventually will surface as an unacceptable risk for the City.

Audit Follow up: Implementation Rate Declines

This year 97% of our audit recommendations were agreed to by the departments and the City Manager. This is better than our performance measure of 95% and better than the 92% rate reported by our peer auditors, according to the Association of Local Government Auditors (ALGA). However, timely implementation took a nose dive this year.

Timely implementation rates hit a low of 26% in both FY 2005 and FY 2006. We worked hard to get attention and support from Council as well as staff, and by FY 2008 the rate of timely implementation (defined as before the audit report is issued) was back up to 52%. This performance measure is at an all time low of 17% for 2009. The total number of recommendations outstanding has also increased.

Audit Recommendations Implemented Fiscal Years 2005 to 2009

Recommendations	2005	2006	2007	2008	2009
Percent accepted by auditee (goal: 95%)	97%	100%	100%	100%	97%
Average percent (by audit) reported implemented or partially implemented before report issued (goal: 40%)	26%	26%	42%	52%	17%
Percent reported implemented or partially implemented within one year (goal: 65%)	79%	91%	48%	56%	26%
Percent reported implemented or partially implemented within two years (goal: 95%)	96%	91%	91%	90%	83%

Audit Implementation Rates and Budget Changes: Trends and Patterns

It is too soon to tell whether this year's declining implementation performance is a trend or a one-year anomaly. At Council's request, we are providing a separate report with more information about outstanding recommendations.

Three significant issues in many of our audits, as well as many of these outstanding recommendations are:

- Software deficiencies,
- Policy direction (especially written policies and procedures), and
- Performance measures and performance monitoring.

Our office will continue to address these concerns in our audits. Council and the City Manager will need to identify the resources to make long-term improvements, and to monitor the results.

Who Are the Auditors?

Collectively, City of Berkeley auditors have over 80 years of combined professional audit experience. Our active engagement in local and national audit organizations has included board membership, publication in professional journals, presentations at audit conferences and the League of California Cities, and conducting peer reviews.

Berkeley's auditors have been in the forefront of the move to improve the quality and usefulness of audit work. We asked the voters to amend the Charter in 1998, to require that we follow Government Audit Standards, which require peer reviews of our audit work every three years.

Who Audits the Auditors? Independent Reviewers Give Auditors High Marks

In November 2009, we had another successful peer review, conducted by the auditors of Clark County, Nevada and King County, Washington. The peer review found that the Berkeley City Auditor's Office was in full compliance with Generally Accepted Government Audit Standards for fiscal years 2006 through 2009, and awarded us the highest rating possible for quality and professionalism. The peer reviewers also identified the following areas in which our office excels:

- Independence combined with a collaborative approach.
- A thorough understanding of the complexities of the management of public sector organization.
- Increased impact of audit work as a result of these strengths.
- High quality of our work.

Performance Audit Division

Ann-Marie Hogan
- City Auditor

Teresa Berkeley-Simmons
- Audit Manager

Frank Marietti
- Senior Auditor

Jack Gilley
- Auditor II

Claudette Biemeret
- Auditor II

Myrna Ortiz
- Auditor I

Sherren Styles
- Administrative Assistant

Government Auditing Standards (GAS) help ensure that government auditors maintain competence, integrity, objectivity, and independence in planning, conducting, and reporting their work.

There were no negative findings. The City Auditor's Office has consistently passed its peer reviews since October 2000.

The City Auditor's Office Mission

The City Auditor's Office mission is to provide independent oversight of City operations and to be a catalyst for improving City government. Our audits provide the City Manager, City Council, and the public with objective, timely, and accurate information about City program performance. Our audits help make government more accountable. Audit work can lead to new revenue, cost recovery, and increased efficiency, which have an economic impact well beyond the audit costs. The City's support for and responsiveness to the audits helps build a more ethical and transparent culture, and builds public trust in the City.

We will continue to work to improve the ability of City staff to monitor the effective use of City resources, through our training, consulting, follow-up work, and performance audits. By providing reliable and objective information about City programs and services, we hope to enhance the ability of staff, City Council, and Berkeley residents to make informed decisions about performance, programs, and resources.

"Other places have to hire people to do this and Berkeley has an Auditor's Office who does this already."

-Berkeley Resident

Appendix A: Recommendations Not Yet Implemented

Council Direction: Budget	Fiscal Year	NOT YET IMPLEMENTED (Outstanding Recommendations)		
Require Internal Control Risk Analyses in Annual Budget Submissions	2008		1	
Audit Report	Fiscal Year	Total Recomm.	Total Outstanding	% Outstanding
Public Works Grants Audit	1998	8	1	13%
City-wide Payroll Audit	1999	45	2	4%
Police Staffing Audit	2002	11	3	27%
Cash Receipts/Cash Handling Audit - Treasury	2003	19	1	5%
Customer Service Cash Receipts / Cash Handling Audit	2003	23	3	13%
Accounts Payable Audit	2004	16	1	6%
FUNDS\$ Change Management Audit	2004	23	7	30%
Citywide Contract Compliance Audit	2004	18	3	17%
Purchase Order Audit - Select Public Works Divisions At the Corporation Yard	2005	23	1	4%
Parcel Based Special Taxes, Fees, and Assessments Audit	2005	22	5	23%
Audit of the Association of Sports Field Users	2006	13	7	54%
Follow-Up Audit of Public Works Construction Contracts	2007	22	9	41%
FY 2008 Surprise Cash Count: Permit Service Center	2008	5	1	20%
Audit of HHS Medi-Cal Mental Health Billings	2008	2	1	50%

NOT YET IMPLEMENTED (Outstanding Recommendations)				
Audit Report	Fiscal Year	Total Recomm.	Total Outstanding	% Outstanding
<u>Audit: Response Times To Calls for Emergency Medical Services Could Be Improved</u>	2008	12	3	25%
<u>Transfer Station Surprise Cash Count Audit</u>	2009	6	6	100%
<u>Audit of Workers' Compensation Policies and Procedures</u>	2009	26	19	73%
<u>Leases Audit: Conflicting Directives Hinder Contract Oversight</u>	2009	24	21	88%
<u>Audit: Utilization of Public Works Sewer Staff Can Be Improved</u>	2010	35	32	91%
<u>Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction</u>	2010	16	6	38%
<u>Mental Health Adult Clinic Surprise Cash Count: Client Funds Could Be Lost, Stolen, or Misused</u>	2010	6	4	67%
Total		375	137	37%

Appendix B:

**Audit Recommendation Implementation Rates and Trends
Fiscal Years 2004 to 2009**

