



Office of the City Auditor  
Ann-Marie Hogan, City Auditor

CONSENT CALENDAR  
October 2, 2012

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Auditor  
Subject: City Auditor's Annual Report for Fiscal Year 2012

RECOMMENDATION

Request the City Manager:

1. Make timely implementation of audit recommendations a high priority, particularly the recommendations regarding fraud prevention, such as the 1998 grants audit and the 2011 adjusting journal entries audit. These recommendations aim to increase the Finance Department's oversight of practices in the departments.
2. Disclose internal control risks of recommended budget cuts in future budget reports.

SUMMARY

In 2012, we once again succeeded in our mission to improve performance of City operations, save money, promote transparency and accountability, and deter fraud. The City Manager and staff helped us achieve this by agreeing to take action on 100 percent of the 22 recommendations we made in our audit reports. Unfortunately, 2012 was another year of limited progress on some of the oldest outstanding recommendations aimed at reducing the risk of fraud and potential loss of federal and state grant funds. As of June 30, 2012, there were still 23 recommendations outstanding from ten reports we issued prior to fiscal year 2010.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

We estimate that implementing the recommendations in the audits we issued in fiscal year 2012 could result in over \$38 million in cost avoidance (Streets) and nearly \$600,000 in revenue recovery (Business License Tax) over five-years.

## CURRENT SITUATION AND ITS EFFECTS

Our audit, "[Failing Streets: Time to Change Direction to Achieve Sustainability](#),"<sup>1</sup> provided City management with the analysis needed to make data-driven decisions regarding street maintenance and repairs. Our report brought transparency to the high cost of deferred maintenance. Various funding scenarios demonstrated how street conditions would improve or decline and how the unfunded need would increase or decrease at the end of five years.

Our audit "[Business License Taxes: Providing Better Guidance and Customer Service Will Increase Revenues](#),"<sup>2</sup> provided guidance for preventing fraud risk and improving both efficiency and accountability for assessing and collecting business license taxes, penalties, and interest. The report identified the need to clarify business license provisions in the Berkeley Municipal Code and for Finance to develop comprehensive procedures to improve consistency in applying those provisions. The report also demonstrated the need for timely and aggressive collection efforts on delinquent accounts. Revenue should increase as a result. Fiscal year 2012 business license revenue was \$15.9 million.

The City received \$139,526 in taxes, penalties, and interest during fiscal year 2012 as a result of our business license tax audits. The business license audits we have conducted during the last ten years can be expected to generate an additional \$1.3 million over the next five years.

City management continued to support our efforts by implementing 71 of 125 open recommendations from prior-year audits. However, key recommendations affecting three of the City's most important risk areas continue to remain open:

- Lost opportunities for efficiencies or cost savings.
- The risk of losing state and federal grants and the lack of guidance and software to address that risk.
- The risk of fraud and the lack of computer controls to address that risk.

We once again urge the City Manager to implement the Council-adopted policy to include an analysis of internal control risks resulting from budget cuts in the annual proposed budget. The City Manager should balance reductions so as not to jeopardize fiscal accountability, and should state this as a budget policy.

## BACKGROUND

The audit function is an essential element of the City of Berkeley's public accountability. The City Auditor's independence and accountability, mandated by the City Charter, means the public, the Council, and City staff can rely on us for objective information and practical advice. We rigorously review and analyze City performance, and we do our best to give you the information you need about complex and difficult issues.

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<sup>1</sup> [http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/Streets%20Audit%20Report\\_Final\(2\).pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/Streets%20Audit%20Report_Final(2).pdf)

<sup>2</sup> [http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/BLT%20Revenue%20Collection%20Audit\\_Final\(1\).pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/BLT%20Revenue%20Collection%20Audit_Final(1).pdf)

RATIONALE FOR RECOMMENDATION

Taking action on our audits will reduce financial, regulatory, and operational risks. It will also help protect the City's good reputation.

CONTACT PERSON

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Attachment: City Auditor's Annual Report for Fiscal Year 2012