Office of the City Auditor

To: Honorable Mayor and Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Follow-up Report on Outstanding Audit Recommendations

RECOMMENDATION

Request the City Manager to notify Council if any of these outstanding recommendations cannot be implemented, or cannot be implemented timely. Request that, in such cases, the report clearly state:

- Reasons, such as staff shortages or lack of funds for new software; including anticipated timeline for resolution.

- Budget alternatives for Council to address staff shortages and lack of funds.

- Mitigating procedures to be implemented as an alternative.

- Risks associated with not implementing the recommendations or any residual risk from implementing mitigating procedures.

FISCAL IMPACTS

Prompt implementation of all remaining audit recommendations should reduce the risk of fraud, and increase staff efficiency and reliability of information.

BACKGROUND

Audit recommendations that remain unimplemented pose risks to the City. These include asset misappropriation, lack of accurate data for decision-making, and lost opportunities for cost savings, revenue increases, and service delivery improvements. On October 30, 2012, the City Auditor discussed the impact of delayed action on audits in a presentation of the City Auditor's Annual Report.[1] Council and the City Manager requested more information about the significant risks of the open recommendations, particularly the fraud risks, and the reasons that action has been delayed.

CURRENT SITUATION AND ITS EFFECTS

The two most significant issues in the audits with delayed action are lack of adequate written procedures and problems with FUND$, the city's financial software.

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[1] http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/October10-30-2012%20Auditor%20Annual%20Report%20PresentationFINAL[1].pdf

In most cases, problems include fraud risks. We analyzed the 18 audit reports with unimplemented recommendations and found that specific risk of fraud continues to exist in 12 of the 18 audits.

The risks of unimplemented recommendations: The lack of appropriate written administrative regulations and other documentation (e.g., policies and procedures) was a concern in 11 of the open audits. This contributed to risks of fraud, inadequate separation of duties, possible incorrect cost assumptions, noncompliance with city regulations or lost revenue. In five audits, a serious problem with the FUND$ financial software contributed to the risk of insufficient controls that could allow unauthorized user access. In two audits, the lack of system application controls result in a risk of improper and incomplete data, which can subsequently result in erroneous decisions being made.

The following table summarizes the risks associated with the unimplemented recommendations only in the three areas: fraud, policies and procedures, and IT. The table double counts recommendations when inadequate policies and procedures or information technology also create a fraud risk, or when multiple departments have responsibility to implement a recommendation.

Department	Number of Recommendations		
	Fraud	Inadequate Policies and Procedures	Information Technology Related
City Manager	0	6	2
Finance	13	16	6
Information Technology	3	3	7
Planning	3	0	0
Police	1	0	0
Public Works	4	10	2
Total	24	35	17

Reasons for delays in implementing recommendations: City Manager reports to Council do not all clearly identify reasons for delay, but lack of resources or availability of appropriate staff is often indicated.

Recommendations to create new administrative regulations or other guidance for grants administration may be difficult to complete because they involve policy decisions affecting many departments. Reports to Council regarding the FUND$ access issues identify approaches that have failed to fully resolve the problems, but Information Technology (IT) staff recently indicated that they are working on a new approach. While efforts to resolve the FUND$ software issues continue, it is also a concern that the departments have not been able to put mitigating procedures in place to diminish the risk. Mitigating procedures are often manual and time consuming substitutions for a preferred control.

Because of the City's continuing budget reductions, it seems likely that installing appropriate compensating controls may be just as challenging as solving the information technology problems. If Council were to vote to finance a replacement of the City's FUND$ system, it could prevent losses from fraud. Those losses could potentially offset any budget savings achieved from delaying implementation of a new system. It is also important to note that fraud risk is not the only reason to consider replacement of FUND$. We have identified in our audits a fraud risk associated with FUND$ computer access, but City staff have consistently identified problems with FUND$-related inefficiencies.

Finance has not yet reported back on the IT issues in the 2012 Business License Tax audit, which identified risks of incomplete data, increased processing times, and increased chance of error. However, new software to replace the FUND$ Occupational License module has been purchased, and planning for installation has begun. The recommendation for automation and increased efficiency in payroll time entry has now been partially funded and preliminary planning is scheduled to begin in March.

ALTERNATIVE ACTION CONSIDERED
Council could vote to accept the risk of not implementing recommendations timely.

FISCAL IMPACTS OF ALTERNATIVE ACTION
Lack of timely implementation of the audit recommendations would continue, resulting in the risk of fraud and delaying increases in staff efficiency, revenue generation, and reliability of information.

CONTACT PERSON
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Attachments:
1: Key Risks Associated With Unimplemented Audit Recommendations

KEY RISKS ASSOCIATED WITH UNIMPLEMENTED AUDIT RECOMMENDATIONS

Audit Name	Issue Date	Next Status Update	Responsible Department(s)	# of Open Recommendations	Asset Misappropriation Risk	Risks from Lack of Written Procedures	IT: Risk of Unauthorized Access	IT: Lack of Application Controls	Most Recent Status Update to City Counsel
Business License Taxes: Providing Better Guidance and Customer Service Will Increase Revenues	29-May-12	30-Apr-13	Finance	20	x	x		x	Not applicable. First status update scheduled for 04/30/2013.
Failing Streets: Time to Change Direction to Achieve Sustainability	15-Nov-11	07-May-13	Public Works	2					http://www.ci.berkeley.ca.us/Clerk/City_Council/2012/11Nov/Documents/2012-11-27_Item_35_Status_Report_Failing_Streets.aspx
Payment Card Acceptance Audit: Is Cardholder Information Safe?	31-May-11	30-Apr-13	Finance, IT, Planning	5	x	x			http://www.ci.berkeley.ca.us/Clerk/City_Council/2012/11Nov/Documents/2012-11-27_Item_33_Audit_of_Citywide_Payment.aspx
Audit: City Fuel Operations Need Improvement	26-Apr-11	31-Mar-13	IT, Public Works	1	x	x			See tonight's City Council Agenda for Status Update.
Property and Evidence Room POST Study: Follow-up Audit	18-Jan-11	03-Dec-13	Police	1	x	x			http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/06Jun/2012-06-26_Item_50_Status_Report_Property_and_Evidence.pdf
Employee Benefits: Tough Decisions Ahead (Audit Report)	16-Nov-10	25-Jun-13	City Manager	1					http://www.ci.berkeley.ca.us/Clerk/City_Council/2012/11Nov/Documents/2012-11-27_Item_32_Status_Report_-_Employee_Benefits.aspx
Equipment Replacement Fund - Sustainability and Transparency	26-Oct-10	01-Jul-14	Public Works, City Manager	3					http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/02Feb/Documents/2013-02-19_Item_22_Status_Report_Equipment.aspx
Lack of Support for Payroll Adjusting Journal Entries: Grant Revenue at Risk?	26-Oct-10	07-May-13	Finance	1	x	x			http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/01Jan/2012-01-31_Item_27_Status_of_Audit_Recommendations.pdf
Public Works Contract Monitoring: Risk of Overpayments / Lack of Inventory Controls	09-Feb-10	17-Dec-13	Public Works	1	x	x			http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/01Jan/2012-01-17_Item_39_Status_Report_Public_Works_Contract_Monitoring.pdf
Audit: Utilization of Public Works Sewer Staff Can Be Improved	13-Oct-09	31-Jan-13	Public Works, IT	2				x	http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/02Feb/2012-02-14_Item_18_Status_Report_Utilization.pdf
Leases Audit: Conflicting Directives Hinder Contract Oversight	02-Jun-09	16-Jul-13	City Manager, Public Works, Finance	7	x	x			http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/01Jan/Documents/2013-01-22_Item_22_Status_Report_Leases_Audit.aspx
FY 2008 Surprise Cash Count: Permit Service Center	06-Nov-07	01-Oct-13	Planning, Finance	1	x				http://www.ci.berkeley.ca.us/Clerk/City_Council/2009/05May/2009-05-19_Item_41_Status_Report_Permit_Service_Center_Surprise_Cash_Count.pdf
Purchase Order Audit - Select Public Works Divisions At the Corporation Yard	15-Mar-05	17-Dec-13	Public Works	1	x	x	x		http://www.ci.berkeley.ca.us/Clerk/City_Council/2012/12Dec/Documents/2012-12-11_Item_31_Status_Report_Purchase_Order_Audit.aspx
FUND$ Change Management Audit	04-May-04	30-Jun-13	IT, Finance, HR	3	x	x	x		http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/05May/2012-05-15_Item_47_Update_Implementation_of_FUNDS.pdf
Customer Service Cash Receipts / Cash Handling Audit	08-Apr-03	17-Dec-13	Finance, City Manager, IT	3	x	x	x		http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2008/05May/2008-05-06_Item_43_Customer_Service_Cash_Receipts.pdf
Cash Receipts/Cash Handling Audit - Treasury	17-Sep-02	17-Dec-13	Finance	1	x	x	x		http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2008/05May/2008-05-06_Item_45_Treasury_Cash_ReceiptsCash_Handling_Audit_2013_Status_Report.pdf
City-wide Payroll Audit	18-May-99	17-Dec-13	Payroll, IT	1			x		http://www.ci.berkeley.ca.us/Clerk/City_Council/2012/12Dec/Documents/2012-12-11_Item_29_Status_Update_Implementation.aspx
Public Works Grants Audit	06-Jan-98	01-Oct-13	Finance, Public Works	1		x			http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/01Jan/2012-01-31_Item_27_Status_of_Audit_Recommendations.pdf
Totals				55	12	11	5	2	