



Office of the City Manager

INFORMATION CALENDAR

June 3, 2014

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: William Rogers, Deputy City Manager

Subject: Update on Outstanding Audits

INTRODUCTION

The purpose of this report is to provide an update on all audits that were outstanding at the beginning of FY 2014. Of the 18 outstanding audits, nine are either closed or will be closed by the end of FY 2014.

CURRENT SITUATION AND ITS EFFECTS

The City Manager's Office (CMO) is responsible for ensuring that departments implement recommendations made by the City Auditor resulting from her audits. The Auditor's recommendations improve City policies and practices and strengthen the City organization both financially and in terms of performance.

Prior to FY 2014, eighteen (18) audits had unimplemented recommendations. Eight of those audits are now completed and one will be completed by June 30, 2014. Significant progress has been made on the remaining nine audits. Many recommendations were complex and required significant collaboration between City departments. Others required the implementation of technology. Several audits required revisions to the Berkeley Municipal Code, changes to City policy, or the issuance of Administrative Regulations.

Audits Completed by end of FY 2014

The Citywide Payroll Audit, published in 2000, examined payroll processing operations throughout City departments. At the beginning of FY 2014, each individual department and the City Manager's Office had already completed all but one recommendation. The final recommendation was implemented with a final report in December 2013.

FUND\$ Change Management Audit, published in 2004, sought to determine whether program change controls over the City's financial system, FUND\$, were adequately strong and if best practices for programming were being observed. This report was closed with the publication of a final report on May 6, 2014.

The Permit Service Center Surprise Cash Count audit, published in 2007, sought to verify that the Planning and Development Department's Permit Service Center's (Center) established change fund and the day's collection receipts were present and properly accounted for at the time during a visit on July 20, 2007. This audit was closed with the publication of a final report on November 19, 2013.

The **Utilization of Public Works Sewer Staff Can Be Improved** audit sought to determine if City sewer crew work was adequately planned, efficiently performed, and properly recorded. Published in 2009, the last two recommendations were implemented and reported on in a report published on November 12, 2013.

The **Employee Benefits: Tough Decisions Ahead** audit sought to prepare an easy-to-read informational report addressing the City's underfunded liabilities related to employee benefits, illustrate the impact these liabilities have on budgeting and staffing due to the annual benefit costs, and offer possible solutions to address the pressures caused by increasing costs for these benefits. The audit, published in 2010, was closed with a final status report on September 17, 2013.

The audit **Property and Evidence Room POST Study** examined the Berkeley Police Department's (BPD) property and evidence functions. The audit, published in 2011, was closed with a final status report on December 3, 2013.

The **Failing Streets: Time to Change Direction to Achieve Sustainability** audit sought to determine what it would take financially to raise Berkeley's average street condition from "at-risk" to the mid-range of "good," which was a regional goal for the nine-county San Francisco Bay Area. The report, published in 2011, came a year before the passage of Measure M, which authorized \$30 million in new funding for paving and green infrastructure improvements. The last two recommendations were implemented and reported on in a final status report on December 3, 2013.

The Shelter Plus Care Audit sought to determine if the Department of Health, Housing and Community Services' procedures ensured that it administered Shelter Plus Care grants in accordance with federal regulations. The audit was published on April 30, 2013. The last recommendations were fully implemented in FY 2014 and reported on in a final status update on May 6, 2014.

The Public Works Grant Audit, published in 1997, will be closed with the publishing of an Administrative Regulation. That Administrative Regulation has been drafted and is in the final stages of departmental review. It is expected to be submitted for publication by the end of FY 2014.

Audits in Progress

Three Public Works audits hinge on a single contract for services, which is still under consideration. All recommendations would be implemented and audits would be closed

with the finalizing of that contract. With agreement from the City Auditor, status reports have been rescheduled for September 30, 2014. Those audits are: **Purchase Order Audit - Select Public Works Divisions At the Corporation Yard; Public Works Contract Monitoring: Risk of Overpayments / Lack of Inventory Controls; and City Fuel Operations Need Improvement**

The Payment Card Acceptance Audit examined citywide payment-card acceptance processing and security over payment-card data and cardholder information. The audit can be closed after the issuance of an Administrative Regulation – which has already been drafted and is under review. A status report has been submitted for the June 3, 2014 agenda.

The Treasury–Cash Receipts/Cash Handling and the **Customer Service Cash Receipts/Cash Handling** audits require resolving limitations in FUND\$, the City's core enterprise software system, which was purchased in 1990. Information Technology has developed software reports to strengthen controls over the system. Finance is developing a manual to test those reports for applicability.

Leases Audit: Conflicting Directives Hinder Contract Oversight. The implementing of the remaining recommendations has been delayed by a vacancy in a key position. Staff is exploring alternate means of implementation.

Equipment Replacement Fund - Sustainability and Transparency. This audit, published in 2010, sought to assess whether the city's equipment replacement reserves are sufficient, whether the city is adequately monitoring equipment replacement activity and whether procedures provide reasonable assurance that replacement vehicles and equipment meet the needs of the users. Public Works expects to implement the last three of the original 16 recommendations in FY 2015.

The audit titled "**Business License Taxes: Providing Better Guidance and Customer Service Will Increase Revenues**" audit sought to determine if Finance assigns correct business licenses tax codes and accurately calculates business license taxes, penalties, and interest. The audit also assessed the effectiveness of Finance's collection activities on delinquent business license accounts. Of this audit's 20 recommendations, nine will be implemented and four partially implemented with the publication of a June 10, 2014 status report.

BACKGROUND

In an effort to address the backlog, the City Manager's Office prioritized the implementation of all audit recommendations that were outstanding at the beginning of FY 2014.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with the subject of this report.

POSSIBLE FUTURE ACTION

The City Manager's Office will continue to assist departments in their implementation of the remaining audit recommendations.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Staff time and unknown costs of future technology.

CONTACT PERSON

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