



Office of the City Auditor

INFORMATION CALENDAR

June 23, 2009

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Audit Plan for Fiscal Year 2010

INTRODUCTION

The aim of the City's Performance Audit program is to improve the efficiency, effectiveness, and accountability of City service delivery, and to reduce risk of loss. The Berkeley City Charter requires that the City Auditor provide the City Council with a planned audit schedule by the beginning of each fiscal year.

SUMMARY

The selection of audits to be performed in fiscal year 2010 was based on a review of risks and opportunities.

We considered over one hundred items for audit, including suggestions by Berkeley residents, the City Manager, Department Directors, and an Audit Advisory Committee of Council, which includes the Mayor. We prepared a Citywide risk assessment with weighted criteria. We selected areas we considered had the most potential for identifying new revenue or significant recommendations for improvements to service delivery and stewardship of City resources. We also considered the impact of State and Federal budget deficits, and the opportunities and risks associated with the City's acceptance of American Recovery and Reinvestment Act funding (ARRA or "stimulus funds").

In May 2009, the City's Budget Office reported stimulus funds awarded to the City of over \$6.6 million. The City must ensure rigorous internal controls and oversight mechanisms are in place to meet the accountability objectives of the Act. We prioritized stimulus oversight and accountability readiness in our audit plan.

Audits in Progress

We are currently working on these reports, which were included in the audit plan presented to Council on June 24, 2008:

- Public Works Staff Utilization (Sewer)
- Property Taxes
- Study of Employee Whistle Blower Hotlines (to be issued next year)
- Surprise Cash Count- Mental Health

We added the following audits, which are also in progress, and notified Council on March 24, 2009:

- Duplicate Payments
- Purchase Order Review and Approval Process (part of the Contract Oversight Improvements series of audits)
- Public Works Contract Oversight (Contract Oversight Improvements series)

New Audits for 2009-2010

- Stimulus Funds Readiness Assessments and possible related system efficiency studies (depending on results)
- Year-end Adjustments (which could pose a risk to stimulus and other grant funding)
- Fleet/Equipment: Costs, Reserves, and Fund Balances
- Customer Service Survey: Phase I, Business License
- Police Department Evidence Room

Ongoing Activities for 2009-2010

- Follow-up on Outstanding Findings
- Training: Internal Controls and Fraud Prevention (possibly targeted towards stimulus funds readiness)
- Non-audit Consulting
- Revenue Auditing (including Business License Tax audits)

Other Reports to Council for 2009-2010

- Peer Review of the City Auditor's office (required every three years to comply with Government Audit Standards, a Charter mandate)
- City Auditor's Office Annual Report

Removed from 2008-2009 audit plan

- Permitting (Will be considered for 2011)
- Ethics Survey
- Citizen-Centric Report on City Finances and Program
- Collections (Will be considered for 2011)

POSSIBLE FUTURE ACTION: ITEMS CARRIED OVER OR REMOVED FROM PLAN

The Employee Whistleblower Hotline report has been deferred because of the press of other work, and in particular because of the need to take timely action on oversight of stimulus funding. The City Auditor has asked the City Manager to approve a rollover of unspent funds in the Auditor's current year budget as a reserve for one-time start up costs of setting up a whistleblower hot line.

A report on customer service and efficiency of front line counter staff, and particularly of the Permit Center, remains a priority for Council. Our customer service survey of business license applicants is meant to be a small and less resource-intensive step and may be the first of a series of surveys.

We would like to include surveys of City stakeholders as part of our audit plan. A firm under contract to the City Auditor might be a cost effective approach to consider.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Audit work can lead to new revenue, cost recovery, and increased efficiency, with economic impact well beyond the audit costs. Long-range financial benefits for the audits completed in fiscal year 2010 should result in significant improvements to internal controls and improved efficiency and effectiveness of Citywide services. A significant benefit of performing audit work in house is that we are able to track and follow-up on the status of findings and recommendations on a continuing basis.

In fiscal year 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. Business license revenue from compliance audits has historically been projected at \$125,000 to \$150,000 annually per full time equivalent employee assigned. Our target for the unlicensed project is to double our 2009 collection dollars for 2010.

A rollover of funds from the Auditor's budget for purposes of start up costs for an employee whistleblower hotline should be less than \$10,000. Funding for either interns or a contracted survey could be an additional \$10,000. Sufficient funds for these alternatives are in the Auditor's current year budget.

CONTACT PERSON

Ann-Marie Hogan, City Auditor, 981-6750

