



Office of the City Auditor

ACTION CALENDAR
January 26, 2010

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Fiscal Responsibility and Outstanding Audits: Policies, Problems, and Solutions

RECOMMENDATION

To avoid revenue reductions and service delivery gridlock, request the City Manager, in his budget proposals, to:

1. Include comprehensive evaluation of internal control impacts of each budget cut (as directed by Council on [October 9, 2007](#))
2. Include a re-statement, for Council adoption, of Council's policy to balance reductions to City administrative services so as not to jeopardize fiscal accountability (adopted [March 23, 2004](#))
3. Include a re-statement, if appropriate, for Council adoption, of Council's previous policy of using one-time reserves for organizational restructuring and efficiencies that will yield significant, recurring savings over time. (adopted [March 23, 2004](#))
4. Review the attached analysis of outstanding recommendations. Include plans to appropriately prioritize needed improvements before the next round of staff reductions eliminates the resources needed to do the work.

Adopted Policies:

- [Fiscal Accountability](#)
- [Improved Efficiencies](#)
- [Recurring Savings](#)

CURRENT SITUATION AND ITS EFFECTS

Ongoing Problems:

- No Written Procedures
- Ineffective Software
- Lack of Monitoring

Because of state and national budget deficits and local revenue shortfalls, the City of Berkeley will likely be reducing and eliminating resources and services in each of the next five fiscal years.

There are certain basic functions that support departments must perform to avoid putting the City at risk. For example, cutting resources in Finance and Budget could hurt our ability to accurately present our financial position. This could hamstring our ability to plan for the future, or lower our bond rating, with very expensive results.

Recognizing the risks of “across the board” budget cuts, Council approved specific policies related to prioritization of oversight and efficiency improvement activities. These should be reaffirmed.

Lack of timely action on audits could mean that some departments are already experiencing “deficits” in resources needed to reduce risk and make improvements. Council has requested more information about the outstanding audits. Most of these unresolved audit issues, as shown in [Appendix A](#), involve key internal control elements:

- Written procedures
- Effective software
- Priorities, performance, and monitoring

FISCAL IMPACTS OF RECOMMENDATION

Implementation of our audit recommendations in particular and improving internal controls in general will lead to increased revenue, increased efficiency, and risk reduction. Reaffirming prudent budget policies will enhance long-term planning and limit the unintended consequences of budget cuts that are not appropriately strategic.

RATIONALE FOR RECOMMENDATION

Council policies and actions aimed at maintaining the fiscal safety net are needed more than ever and should be discussed and reaffirmed. Budget strategies based on cutting oversight and programs equally tend to disproportionately hurt oversight activities and improvement efforts, producing unintended consequences. Failure to implement agreed-upon audit recommendations may be the canary in the coal mine: an early indicator that City staff are stretched too thin.

ALTERNATIVE ACTIONS CONSIDERED

None

CONTACT PERSON

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Attachments:

1. Appendix A–Outstanding Audit Recommendations
2. Appendix B–Previous Reports to Council City
3. Council Budget Policies

Appendix A: Outstanding Audit Recommendations

| Previous Reports to Council Direction: Budget | Fiscal Year | Not Yet Implemented Outstanding Recommendations | | | | |
|---|-------------|---|-------------------------|-------------------------|-------------------------------------|-----------------|
| Audit Report | Fiscal Year | Total Outstanding | Written Procedures | Software | Priorities, Performance, Monitoring | Policy Issues |
| Require Internal Control Risk Analyses in Annual Budget Submissions | 2008 | 1 | | | | |
| Public Works Grants Audit | 1998 | 1 | Citywide | | | |
| City-wide Payroll Audit | 1999 | 2 | | Time Entry | | MOU Changes |
| Police Staffing Audit | 2002 | 3 | | | | Civilianization |
| Cash Receipts/Cash Handling Audit - Treasury | 2003 | 1 | | FUND\$ Security | | |
| Customer Service Cash Receipts / Cash Handling Audit | 2003 | 3 | Write-offs | FUND\$ Security | Write-offs | |
| Accounts Payable Audit (see Feb 9, 2010 audit report) | 2004 | 1 | | FUND\$ Auto Discounts | | |
| FUND\$ Change Management Audit | 2004 | 7 | FUND\$ User Manuals | FUND\$ Security, access | FUND\$ Problem Tracking | |
| Citywide Contract Compliance Audit | 2004 | 3 | Contracts Online Update | Contract Database | Project Manager Oversight | |

| Audit Report | Fiscal Year | Total Out-standing | Written Procedures | Software | Priorities, Performance, Monitoring | Policy |
|---|--------------------|---------------------------|------------------------------|---|---|--|
| Purchase Order Audit - Select Public Works Divisions At the Corporation Yard | 2005 | 1 | | FUND\$ Inventory | No Reconciliations | |
| Parcel Based Special Taxes, Fees, and Assessments Audit | 2005 | 5 | | | See Dec 15, 2009 Report | Non-profits Not Taxed |
| Audit of the Association of Sports Field Users | 2006 | 7 | | | Outside Contractor | |
| Follow-Up Audit of Public Works Construction Contracts | 2007 | 9 | | Lacking | No Performance Measures; Late Billing | |
| FY 2008 Surprise Cash Count: Permit Service Center | 2008 | 1 | | | Security Over Cash & Checks | |
| Audit of HHS Medi-Cal Mental Health Billings | 2008 | 1 | | | No Contract with County | Audit Access Problems |
| Audit: Response Times To Calls for Emergency Medical Services Could Be Improved | 2008 | 3 | | | Patient Outcome Measure; EMD; new software should improve reporting | |
| Transfer Station Surprise Cash Count Audit | 2009 | 6 | Outdated | | Supervision, Performance | |
| Audit of Workers' Compensation Policies and Procedures | 2009 | 19 | Lacking | | Performance Measures, Monitoring | |
| Leases Audit: Conflicting Directives Hinder Contract Oversight | 2009 | 21 | Procedures Contradict Policy | No Centralized Lease, Contract Database | No Performance measures, Inventory | Centralized vs. Decentralized Responsibilities |

| Audit Report | Fiscal Year | Total Out-standing | Written Procedures | Software | Priorities | Policy |
|--|-------------|--------------------|--------------------|--------------------------------------|--|--------|
| Audit: Utilization of Public Works Sewer Staff Can Be Improved | 2010 | 32 | Insufficient | FUNDS Design, Input, Output | Planning, Performance Measures, Monitoring | |
| Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction | 2010 | 6 | Need Improvement | | Assign Responsibility, Monitor, Prioritize Revenue | |
| Mental Health Adult Clinic Surprise Cash Count: Client Funds Could Be Lost, Stolen, or Misused | 2010 | 4 | Lacking | | Security Over Information, Cash & Equivalents | |
| Total | | 137 | | | | |

Appendix B – Previous Reports to Council

Budget Policy and Internal Controls Alerts: City Auditor Council Items re: Budget Cuts, Efficiencies, Audit Follow-Up, and Internal Controls (FYs 2004-2009)

Failure to implement agreed-upon recommendations may be the canary in the coal mine: an early indicator that City staff are stretched too thin. Across the board budget cuts tend to disproportionately hurt oversight activities and improvement efforts, producing unintended consequences.

[Investing in Long Term Cost Savings: Workers' Compensation and Wellness](#) (October 13, 2009)–The City needs to update our software and other systems, align our training and our job descriptions with our future needs, and develop better ways to measure and monitor results. Efforts may be as simple as making sure that written procedures are in place, or as complex as addressing the redundancies and bottlenecks in our administrative processes. 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.

[Budget Transparency, Internal Controls, and Delayed Action on Audits](#) (March 24, 2009)– Action to avoid costly inefficiencies, revenue loss, or misuse of City resources may have taken a back seat because support and oversight activities were reduced.

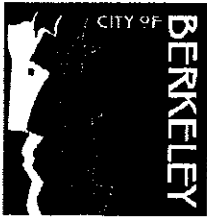
[City Auditor's Budget Discussion](#) (February 10, 2009)–When “across the board” cuts are applied to direct services, the impact on service is visible: delayed response or shorter service hours. With cuts to oversight and support functions, the risk is great. The impact may be invisible in the short term, but eventually will surface as an unacceptable risk for the City.

[126 Opportunities to Increase Revenues, Control Costs, and Decrease Risk: What Happens to an Audit Recommendation Deferred?](#) (March 25, 2008)– The unintended consequences of delayed action on audits include lost opportunities for reducing spending, increasing revenue and safeguarding public assets and trust.

[Invisible Problems: Weak Internal Controls May Require Disclosure by City Manager and Council Action](#) (October 9, 2007)–The City tries to minimize direct services cuts by cutting the oversight services that support those programs. One of the great challenges of City leaders over the next few years is that, if Berkeley increases reductions in oversight services to avoid reducing programs, “invisible problems” will not be addressed and risks of unintended consequences will increase.

[Delayed implementation of Audit Recommendations](#) (December 13, 2005)–A nosedive in implementation of improvements was discussed. Council voted to ask the City Manager to find out whether budget cuts and position freezes had resulted in imprudent weakening of controls and oversight. Council also asked for an analysis of potential internal control risks of future City budgets.

[Internal Control Risks Associated with Budget Cuts and Freezes](#) (December 9, 2003)– Outstanding audit recommendations represent unaddressed risks, some identified many years ago, in the key areas of accountability, qualified and well-trained staff, and adequate software. As we grapple with increasing costs and shrinking revenues, it is more important than ever that the City vigilantly pursue fiscal, as well as environmental sustainability and inter-generational equity. Both require that we address our budgetary problems sooner rather than later.



Office of the City Manager

ACTION CALENDAR

March 23, 2004

To: Honorable Mayor and
Members of City Council

From: PK Phil Kamlarz, Acting City Manager

Subject: FY 2005 & FY 2006 Proposed Budget Plan

RECOMMENDATIONS

That the City Council adopt the following policies to guide the balancing of the City's budget deficit and the creation of the FY 2005 Proposed Budget and FY 2006 Reduction Plan:

Broad Policies

1. Implement a two-year approach to eliminate the City's structural deficit that includes a contingency plan for future uncertainties and deficits.
2. Present a balanced approach to the budget that contains new revenue – including possible ballot measures, reduced program expenditures (including employee contributions), and the one-time use of some reserves; and equitably distributes any program reductions.
3. Minimize impact on direct services to the community.
4. Minimize overall impact on property-owners, residents and the business community of all proposed fee, and/or tax increases.
5. Minimize staff lay-offs.
6. Balance reductions to City administrative services so as to not jeopardize fiscal accountability.
7. As one-time revenue becomes available, first consider use of these funds for City capital improvement needs.
8. As Council approves new, recurring revenue, reduced programs will be restored.

Specific Policies

9. Accept that the program expenditure reductions as detailed in Attachment #1 represent the basis of program reduction options that will be considered in the FY 2005 Proposed Budget and FY 2006 Reduction Plan.
10. Adopt the concept that the City will use one-time reserves for organizational restructuring and efficiencies that will yield significant, recurring savings over time.
11. Implement a targeted 10% total reduction for Community Agency Contracts that does not represent an across-the-board approach and follows the attached policy guideline.
12. Implement a policy for Special Events and fee waivers and a reduction in funding for Special Events.