



Office of the City Auditor

CONSENT CALENDAR
July 19, 2016

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Follow Up Audits – Fiscal Year 2016

RECOMMENDATION

Request that the City Manager report back by January 17, 2017 and every six months thereafter, regarding the status of our recommendations until fully implemented.

CURRENT SITUATION AND ITS EFFECTS

We completed follow-up audits on our Public Works Grants audit, issued in January 1998, and Examination of Department Director Transition Procedures audit, issued in December 1996. Our follow up on these two audits was prompted by concerns over the timeliness of grant billing and the recent spike in turnover at the department director level, respectively.

We found that most of our original audit recommendations are no longer fully implemented. Of the six recommendations originally reported as implemented in the Grants audit, one is still implemented, two are partially implemented, and three have become unimplemented. For the Transition Procedures follow up, three of the recommendations originally reported as implemented are no longer in effect. Two are partially implemented and one has become unimplemented. Both audits identified lack of clear procedural guidance and lack of well-defined roles and responsibilities as contributing factors to the deterioration in the control structure. The absence of these vital internal control components has created confusion among staff as to the individuals and departments responsible for key procedures. This led, in some instances, to failure to take ownership of the work and, ultimately, to an overall breakdown in the respective processes.

Our follow up work resulted in 18 recommendations designed to provide management the tools needed to improve the grant billing and department director transition processes and help the City meet its goals and objectives. The overarching themes of changes needed in both areas are to:

- Develop and implement clear procedural guidelines to ensure that all parties are aware of their respective roles and responsibilities.
- Promote team work so that staff support the program, function, or process for which they have roles and responsibilities.

FISCAL IMPACTS OF RECOMMENDATION

Controls over grant administration, as well as the transition of equipment and authority from one department director to the next, have a direct impact on the City's fiscal operations. Failure to complete the grant billing process in a timely manner places undue pressure on the City's General Fund and could ultimately result in the permanent loss of grant funding. Similarly, failure to establish and maintain strong controls over the transfer of equipment and authority could leave the City's physical assets vulnerable to loss or abuse, and leave the City's information systems vulnerable to unauthorized access.

BACKGROUND

The City Auditor's Office routinely conducts follow up work on closed audits to review the status of all original report recommendations previously reported as implemented or alternatively implemented. The latter refers to instances where City management did not implement our specific recommendation, but took action to address its intent.

ENVIRONMENTAL SUSTAINABILITY

Our office manages and stores audit workpapers and other documents electronically to significantly reduce our use of paper and ink. Although many of the audits we issue do include information about specific environmental impacts, this particular report has no identifiable environmental effects or opportunities associated with it.

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will provide City management the tools needed to create a more efficient and effective grant administration process, and to ensure the safeguarding of assets and continuity of operations during the department director transition process.

CONTACT PERSON

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Attachment:

1: Follow Up Audits – Fiscal Year 2016

City of Berkeley Office of the City Auditor



Follow Up Audits – Fiscal Year 2016

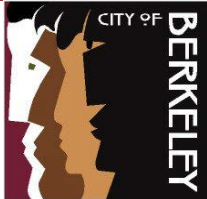
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Presented to Council July 19, 2016

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City Of Berkeley - Office Of the City Auditor

Follow Up Audits – Fiscal Year 2016

July 19, 2016

Purpose of the Audit

We followed up on the status of our previous audit recommendations to determine whether management's action plans are still in place, and, if not, examine why they became unimplemented.

Executive Summary

Follow-up audits selected to address key concerns facing City management

We have completed follow-up audits on our Public Works Grants audit, issued in January 1998, and Examination of Department Director Transition Procedures audit, issued in December 1996. Concerns over the timeliness of grant billing and its potential impact on the City's cash flow, and the recent spike in turnover at the department director level prompted our follow up work on the Grants audit and Transition Procedures audit, respectively.

Most prior audit recommendations no longer fully implemented

Most of the recommendations in our original audits are no longer fully implemented. Of the six recommendations originally reported as implemented for the Grants audit, one is still implemented, two are partially implemented, and three have become unimplemented. For the Transition Procedures follow up, three of the recommendations originally reported as implemented are no longer in effect. Two are partially implemented and one has become unimplemented.

Lack of clear guidance and defined responsibilities common themes in both follow-up audits

Though the subject matter of the two audits is distinctly different, we noted common themes running through both audits; the lack of clear procedural guidance and well-defined roles and responsibilities. The absence of these vital internal control components has created confusion among staff as to who or what department is responsible for key procedures. This led, in some instances, to failure to take ownership of the work and, ultimately, to an overall breakdown in the respective processes.

Recommendations

Our recommendations provide the tools management needs to improve both grant billing and department director transitions and help the City meet its goals and objectives in those areas. The overarching themes of changes needed in both areas are to:

- Develop and implement clear procedural guidelines to ensure that all parties are aware of their respective roles and responsibilities.
- Promote team work so that staff support the program, function, or process for which they have roles and responsibilities.

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Report available at: <http://www.cityofberkeley.info/ContentDisplay.aspx?id=7236>

AUDIT OBJECTIVE

Follow up audits help improve understanding of original audit recommendations

Our follow up audits ask: *Are the action plans that management put in place to address our recommendations still effective?* We included follow up audits in our fiscal year [2016 Audit Plan](#)¹ because we have noticed that some of our audit recommendations become unimplemented over time. We wanted to understand why that happens, so that we could then develop stronger recommendations and help City management and staff embrace the spirit and intent behind them.

BACKGROUND

Closed audits subject to follow up

Our follow up audits focus on closed audits, meaning that City management reported all of the original audit recommendations as implemented or alternatively implemented. The latter means that City management did not implement our specific recommendation, but took action to address its intent. We selected the two audits below due to the following concerns:

In FY97, PW had \$4.5M in grants receivables; \$2.1M in unbilled expenditures

- [Public Works Grants Audit](#)²: Serious concerns about the City's timeliness of grant billing prompted our original audit. Public Works was the focus because, at the time, the department managed grants amounting to \$13.8 million, had over \$4.5 million in grants receivables, and had not billed grantors for \$2.3 million in eligible expenditures. This led to a significant loss of cash flow and interest income, and put Public Works at risk of losing grant funding.

Tremendous turnover in top city management

- [Examination of Department Director Transition Procedures](#)³: Berkeley experienced tremendous turnover at the highest level of management over the last couple of years. Significant access rights and authorities had to be removed or provided for those who left, joined the City, or served in an acting position during the time of change.

¹ City Auditor's Office Fiscal Year 2016 Audit Plan: [https://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/RPT_City%20Auditor%20Fiscal%20Year%202016%20Audit%20Plan_102715\(1\).pdf](https://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/RPT_City%20Auditor%20Fiscal%20Year%202016%20Audit%20Plan_102715(1).pdf)

² Public Works Grants Audit, May 16, 1997: http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/PWGrantsAuditreport1-6-98.pdf

³ Examination of Department Director Transition Procedures , December 10, 1996: http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/RPT_Department%20Director%20Transition%20Audit_121096.pdf

**Grants help fund
Public Works
projects**

Public Works receives grants to help fund a variety of projects. Grant funding allows Public Works to complete major construction and transportation projects; provide safe pedestrian and bicycle routes; and offer recycling programs among other things. Rather than provide funding upfront, grantors typically require grantees to request reimbursement of expenditures, which is the case for many Public Works grants. This makes it vital for the department to bill grantors timely: a delay in billing is a delay in cash flow. Timely billing could also be a requirement of the grant, which puts the City at risk of losing the funding or future grant opportunities.

Grants management and accounting require a coordinated team effort

Grant management and accounting require a coordinated effort between Public Works staff from different divisions, and Finance Accounting staff. This team effort helps establish the project codes to track expenditures and revenues in the City's financial system, FUND\$; identify grants for inclusion in the City's grant repository; and prepare billings and reports.

**The transition
process helps
safeguard assets and
operations stability**

The transition process for City employees preserves the continuity of operations through the effective transfer of knowledge from outgoing to incoming personnel and safeguards personally assigned assets. This audit specifically examined the transition process at the director level where greater levels of access and authority create heightened levels of risk if the process breaks down.

An effective transition process requires strong procedural guidance and a coordinated team effort

The key to an effective transition process is strong procedural guidance coupled with well-defined roles and responsibilities. As with grant management, it also requires a coordinated effort among the key departments, including the City Manager's Office, Human Resources, Finance, and Information Technology.

PUBLIC WORKS GRANTS FOLLOW UP AUDIT FINDING

Finding 1: Of our six original recommendations, only one is currently implemented, two are partially implemented, and three are unimplemented

The risks that existed almost two decades ago remain today: loss of current and potential grant funding, and inaccurate financial information. Though management previously reported all six of our recommendations as implemented, only one is currently implemented, two are partially implemented, and three are unimplemented. Three primary issues led to the recommendations becoming unimplemented:

1. Staff roles and responsibilities are not defined in a single set of written procedures that clearly explain the Public Works’ grant accounting process and the efforts needed to coordinate workflows within Public Works and with Finance.
2. Staff are not collaborating effectively to ensure all grants are managed and monitored appropriately.
3. Grant information is kept in a standalone database managed by Finance staff who must spend an excessive amount of time researching for information to include in the database. When data are collected, the resulting reports are not intuitive for those who need them.

Summary: Current Status of Original Audit Recommendations			
Current Status <i>Arranged by status</i>	#	Key Element(s) of Original Recommendation	Follow Up Audit Conclusions
Implemented	4	<ul style="list-style-type: none"> ▪ Develop and issue grant processing administrative regulation 	<ul style="list-style-type: none"> ▪ Finance issued City Administrative Regulation 1.17 in April 2015 ▪ City staff are not yet fully familiar with the new regulation and its requirements
Partially Implemented	1	<ul style="list-style-type: none"> ▪ Clarify roles and responsibilities for grant billing and accounting ▪ Review billings for timeliness and accuracy ▪ Hire or assign skilled staff to focus on performing grant billing and related accounting tasks 	<ul style="list-style-type: none"> ▪ Public Works staff remain unclear on their roles and responsibilities ▪ Public Works has developed some procedures but they are not comprehensive ▪ Public Works added staff but they do not perform grant accounting activities as expected

Summary: Current Status of Original Audit Recommendations			
Current Status Arranged by status	#	Key Element(s) of Original Recommendation	Follow Up Audit Conclusions
Partially Implemented	3	<ul style="list-style-type: none"> ▪ Update <i>Administrative Regulation 4.1: Grant Application and Review Procedures</i> ▪ Place updated regulation on the City’s internal website 	<ul style="list-style-type: none"> ▪ Finance revised and reissued the policy as City Administrative Regulation 1.16 ▪ Finance placed regulation on the City’s intranet ▪ Administrative Regulation 1.16 references nonexistent forms and a disbanded work group ▪ No department is currently responsible for reviewing and updating the regulation
Partially Implemented	5	<ul style="list-style-type: none"> ▪ Require grantors to mail payments to central location in Finance ▪ Include remittance slip with grant billings ▪ Include pertinent project information on remittance slips, e.g., account number 	<ul style="list-style-type: none"> ▪ Each City department is required to develop its own system for tracking and recording grant payments ▪ Public Works created a “summary of charges” sheet to use as remittance slip ▪ Not all Public Works staff are using the summary of charges sheet as required
Unimplemented	2	<ul style="list-style-type: none"> ▪ Distribute quarterly grant reports and reconcile reports to FUND\$ 	<ul style="list-style-type: none"> ▪ Public Works is not performing reconciliations
Unimplemented	6	<ul style="list-style-type: none"> ▪ Review quarterly grant report for inaccuracies ▪ Ensure quarterly report reflects accurate citywide grant information 	<ul style="list-style-type: none"> ▪ FUND\$ is difficult to use for tracking and reporting on grants so Finance created a grant database to use for grant reporting ▪ Finance switched to a semiannual reporting schedule ▪ Finance is not able to issue reports timely; burdened with collecting grant information for database ▪ Finance places reports on City’s shared network

Summary: Current Status of Original Audit Recommendations			
Current Status <small>Arranged by status</small>	#	Key Element(s) of Original Recommendation	Follow Up Audit Conclusions
			<ul style="list-style-type: none"> Not all City staff who need the information are aware of, are using, or understand the reports

See Appendix B for full details

See the full detail of our audit finding and recommendations, as well as management’s response in Appendix B. Our recommendations provide the tools needed to prevent a loss of grant revenue and provide management and staff with accurate and timely information.

**EXAMINATION OF DEPARTMENT DIRECTOR TRANSITION PROCEDURES
FOLLOW UP AUDIT FINDING**

Finding 1: Of our original recommendations, Recommendations #1 and #3 are currently partially implemented, and Recommendation #2 is unimplemented

The lack of documentation and procedural guidance over the transition process for department directors continues to hinder the City’s ability to safeguard its assets and ensure the proper transfer of knowledge during leadership succession. While Human Resources had updated the City’s property checklist in accordance with our original report recommendation, neither the City Manager’s Office nor Human Resources could provide evidence showing that the checklists had been implemented at the department director level. Further, the City Manager’s Office could not provide evidence that formal exit interviews had been conducted with exiting directors. The Information Technology Department was unable to provide evidence documenting either the issuance or retrieval of mobile communications equipment, and Public Works did not have a system for tracking keys issued to department directors. Finally, the lack of clear procedural guidance over the transition process had contributed to an element of confusion among some individuals as to their respective roles and responsibilities in the process.

Summary: Current Status of Original Audit Recommendations			
Current Status Arranged by status	#	Key Element(s) of Original Recommendation	Follow Up Audit Conclusions
Partially implemented	1	<ul style="list-style-type: none"> ▪ Update the City property checklist ▪ Maintain completed City property checklists documenting issuance and retrieval of City property 	<ul style="list-style-type: none"> ▪ Although Human Resources updated and the City Manager’s Office implemented a property checklist, neither the City Manager’s Office nor Human Resources could provide property checklists for former department directors ▪ The City Manager’s Office does not maintain property checklists for current department directors ▪ Information Technology could not provide evidence of communications equipment issued to former department directors, and does not have a process for documenting the return of the equipment
Partially Implemented	3	<ul style="list-style-type: none"> ▪ Ensure timely notification of assignment or removal of department director signatory authority and establish formal guidelines for the process 	<ul style="list-style-type: none"> ▪ Finance has guidelines and procedures in place, and was aware of staffing changes affecting signature authority. However, Finance did not always receive notification of those changes from departments, as required. ▪ The City Manager’s Office does not have procedures requiring department directors notify Finance of changes in signature authority
Unimplemented	2	<ul style="list-style-type: none"> ▪ Establish formal guidelines for department director separations to ensure the removal of access to assets, return of equipment, and completion of resignation procedures 	<ul style="list-style-type: none"> ▪ The City Manager’s Office does not have formal guidelines for department director transitions

See Appendix C for full details

See the full detail of our audit finding and recommendations, as well as management’s response in Appendix C. Our audit recommendations focus on the practices and procedures needed to ensure the safeguarding of assets and transfer of knowledge during department director transitions.

CONCLUSION AND FISCAL IMPACT**Lack of clear guidance and defined responsibilities continue to be concerns**

Most of the original recommendations in the Grants and Transition Procedures audits are no longer fully implemented. Though the subject matter of the two audits was distinctly different, there were common issues addressed in both; the lack of clear procedural guidance and well-defined roles and responsibilities. The absence of these vital internal control components has created confusion among staff as to who or what department is responsible for key processes. This in turn led to a lack of process ownership in some instances, and ultimately to an overall breakdown in the respective processes. Because the intent of our original audit recommendations remains largely unaddressed, the fiscal risks that existed years ago remain today: loss of grant funding and inability to account for city assets.

Grant funding and accounting for city assets remain as fiscal risks

APPENDIX A

Scope and Methodology

We focused on the actions that management took to implement our original audit recommendations. We reviewed management's audit status reports to Council to identify the staff, documents, systems, and other resources management reportedly used to implement our recommendations. We followed up to see if those resources and systems are still in place or if management has taken alternative action to address our original audit concerns. We reviewed our original audit reports and related records to gain an understanding of the concerns present at the time we completed the original audits. We assessed management's system of internal controls by looking for clearly established procedures, clearly defined roles and responsibilities, and an effective monitoring system. We obtained our evidence from documentary reviews and interviews with key staff. We did not use computer processed data to support our findings, conclusions, or recommendations; therefore, we did not perform data-reliability assessments.

Public Works Grants Follow Up

We reviewed City grant administrative regulations, Finance's contract administration procedures, and Public Works' grant administration guidance. We interviewed Public Works' project managers, analysts, and administrative staff, and Finance's grant coordinator to obtain an understanding of the grant accounting process and practices. We identified the grants awarded to Public Works in fiscal year 2015 and obtained related documentation to assess the accuracy and timeliness of the department's grant billings and reconciliations. We discussed the citywide grant database and grant reporting practices with Finance's grant coordinator and reviewed the grant reports. We expanded our scope to gain an understanding of the value and use the grant reports by surveying staff throughout the city who have a role in grant management, monitoring, or accounting.

The auditor assigned to the Public Works Grants follow up audit accepted a position with the Transportation Division in Public Works after the completion of audit field work. The Audit Manager reduced the threat to our independence to an acceptable level by reviewing all work conducted by the auditor to ensure it was relevant, appropriate, sufficient for the audit scope and objective, fairly represented the current standings of our prior audit recommendations, and was prepared in accordance with generally accepted government auditing standards. The auditor assigned to this audit exhibited auditor professionalism at all times by appropriately identifying that our prior audit recommendations were no longer implemented and documenting in workpapers the risks that require management's attention.

Department Directors Transition Follow Up

We reviewed City administrative regulations related to the issuance and retrieval of City property, access to City property, and delegation of signatory authority. We interviewed City Manager's Office, Human Resources, Finance, and Information Technology staff involved in the department director transition process to gain an understanding of their departments' procedures and practices. We

attempted to obtain property checklists, signatory authority forms, and communications equipment issuance forms supporting adherence to the aforementioned City administrative regulations. However, City staff were not able locate or substantiate the existence of the documents.

Standards Compliance Statement

We conducted our follow-up performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX B

Public Works Grants Follow Up Audit Finding Detail Submitted to City Management April 19, 2016

Original Audit Recommendation #1

We recommend that the Director of Public Works make it clear to the Engineers that billing and ongoing review of billable costs are ultimately their responsibility and that billing is essential in managing their projects. We recognize the role of the administrative staff in assisting with the preparation of billings. However, the project managers should ultimately be held accountable for timely billings. In addition, the Manager of Engineering should periodically review the billings as oversight and to ensure that grants are being billed timely.

We recommend that Public Works hire or assign an individual to ensure that the billing task is completed timely and accurately. The person assigned should have training and experience in contract and grant billing, should possess the skills necessary to prepare accounting reconciliations, and should be appropriately supervised. The person assigned should work with the Engineers to ensure that grant revenue is billed and collected in a timely manner, grant activity is properly reported to the granting agency, and grant activity is reconciled to the control account at least quarterly. In addition, this position could also be responsible for budget modifications, adjustments, obtaining revenue and expense modifications, and tracking revenue and expenditures.

Management's Reported Action Plans to Address Original Audit Recommendation #1

Public Works reported the recommendation as implemented. The department disagreed that its project managers are ultimately responsible for grant billing and that the Engineering Manager is responsible for the periodic reviews and oversight of timely billings. However, Public Works communicated to project management staff the importance of tracking project costs eligible for grant reimbursements to help support timely and accurate billing and grant management. Public Works also added language to its Engineering Division's Project Management Manual indicating that grant billing and the posting of deposited reimbursements are critical aspects of project close out. Public Works reported that its Administrative and Fiscal Services Division (Administration) is responsible for grant billing and cost recovery. The department reorganized its financial unit and added one-half of an Associated Management Analyst to focus exclusively on grant accounting.

**Status of Original Audit
Recommendation #1:
Partially Implemented**

The Engineering Division’s Project Management Manual includes a paragraph stating that project managers are required to ensure that progress billings are submitted in accordance with the terms of the grant award. The manual includes two simple checklist items for progress and final grant billing. The department also developed grant administration procedures. This is a one-page document listing the ten primary steps in grant administration, some of which are outdated and reference documents that do not exist. Neither set of guidance provides a complete list of information that helps describe the grant accounting process from start to finish, and that references other applicable guidance such as City Administrative Regulations.

Staff remain unclear on their roles and responsibilities regarding grant billing. Additionally, Public Works does not have staff in its Administrative and Fiscal Services Division who focus exclusively on grant accounting. The disconnect between Public Works Engineering and Administration remains as evident today as it was nearly twenty years ago. In part, this is due to significant staff turnover and concerns by project managers who believe they do not have the capacity to handle grant billing given their workloads. However, the primary issue is lack of detail in the written procedures that would benefit new staff and help project managers with their workload. Staff would have a better understanding of what is required of them if they had clearer procedures that describe the roles and responsibilities of those involved with grant accounting, and that explain how employees across divisions should work collectively to record and track grants, bill granting agencies, and post grant funds to the City’s financial system.

**Original Audit
Recommendation #2**

We recommend that Public Works distribute the quarterly reports to project managers and appropriate administrative staff. Public Works project managers and administrative staff should use the quarterly report to reconcile the detailed information noted in the department to the information recorded in the City's accounting system (FUND\$). Reconciliation to the City's accounting system (FUND\$) should be performed at least quarterly and preferably monthly.

The information in the Quarterly Report should alert the project managers and administration to late billings, overdue receivables, and other unrecorded/ unprocessed information. It should be used by Public Works to assist with grants management.

**Management’s Reported
Action Plans to Address
Original Audit
Recommendation #2**

Public Works reported the recommendation as implemented. The department informed City Council that its administrative staff are responsible for receiving and reviewing Finance’s FUND\$ quarterly grant report, reconciling the report with the department’s own records, and following up on any discrepancies. Public Works said that it uses the FUND\$ quarterly report to manage its grants and that its administrative staff are able to use the quarterly reconciliation to help them prepare a Public Works grants receivable report for Finance.

**Status of Original Audit
Recommendation #2:
Unimplemented**

Finance moved to a semiannual reporting schedule but is not issuing the reports on a timely basis. When the grants reports are issued, the Finance grant coordinator places them on the City’s shared drive and notifies the City Manager, department directors, and staff known to be involved with grant management and accounting that the reports are available for use. We discuss the citywide problems associated with Finance’s ability to issue the grant reports timely in the current status of recommendation six section below.

Public Works does not perform reconciliations. Many Public Works staff are new or were given additional responsibilities when longtime employees retired or resigned, and it remains unclear as to which Public Works division is responsible for grant accounting. These problems are discussed in more detail in the current status of recommendation one above. However, Public Works staff’s misunderstanding of the grant accounting process means they are not clear on who is required to perform reconciliations, and are not familiar with Finance’s grant reports. Reconciliations help identify missing grantor payments, which could signal theft. Though we saw no indication of fraud during this audit, the City’s exposure is a concern.

**Original Audit
Recommendation #3**

We recommend that *Administrative Regulation 4.1 Grant Application Review Procedures* be updated to reflect the current Citywide grant application process. It should be revised to include directions on who can apply for grants, who can approve grant applications (e.g., department heads, City Manager's Office), and a time line for application processing (e.g., within three days of application approval by the granting agency, notice of application approval should be submitted to Finance, the department head, etc). The Administrative Regulation should include samples of any additional internal grant application information worksheets.

Finally, the updated Administrative Regulation should be placed on the Citywide system for ease of accessibility. This will assist the City in establishing a uniform system for applying for grants.

**Management’s Reported
Action Plans to Address
Original Audit
Recommendation #3**

Finance reported the recommendation as implemented. The department revised and reissued the policy as *City Administrative Regulation 1.16: Guidelines for the Review, Approval, and Submission of Grant Applications*. Finance placed the regulation on the City’s internal website where it is easily accessible to all City staff. Additionally, Council adopted a resolution authorizing the City Manager to apply for and accept all grants consistent with City policy and then execute the resulting agreements.⁴

**Status of Original Audit
Recommendation #3:
Partially Implemented**

City Administrative Regulation 1.16 is outdated. It references the use of nonexistent forms and a grant coordinating group that disbanded seven years ago. No department has taken ownership of the regulation, leaving it unmanaged for 13 years. Finance does not agree that it should be responsible for reviewing and updating the regulation because it sets forth pre-award requirements. City Council authorized the City Manager to apply for grants when the application does not require the use of unbudgeted funds, there is a City policy in place supporting the program, and the grant funding covers the cost of staff time to administer the grant. The City Manager must provide Council with information on awarded grants.

**Original Audit
Recommendation #4**

An Administrative Regulation should be developed to describe the appropriate grant processing procedures for Citywide grants. It should specify Citywide policy for processing grants and when a revenue contract should be submitted to Council for approval (e.g., revenues greater than \$25,000, revenues with matching requirement greater than \$1.00 which will be paid by the general fund, any amendments to grants in excess of \$25,000). The specific requirements should be investigated and determined by management. Management should ensure that the Administrative Regulation conforms to the contract approval and registration requirements of the City Charter. Again, this will assist the City in establishing uniform guidelines for processing revenue contracts.

⁴ City of Berkeley Resolution No. 56,776-N.S: <http://www.ci.berkeley.ca.us/recordsonline/export/12617221.pdf>

Management’s Reported Action Plans to Address Original Audit Recommendation #4	Finance reported the recommendation as implemented. In April 2015, the department issued <i>City Administrative Regulation 1.17: Pre-Authorization and Post-Award Grant Requirements</i> stipulating the City’s requirements on grant management.
Status of Original Audit Recommendation #4: Implemented	<p>City Administrative Regulation 1.17 provides the framework for grant policies, including requirements for approvals, contract execution, and management and monitoring. The regulation also requires initiating departments to complete an accounting data sheet and provide it to the grant coordinator in Finance. The data sheet provides the coordinator with all the information needed to include the grant in a central repository (i.e., database) and track expenditures and payments in FUNDS.</p> <p>Although Finance established the regulation, not all City staff are familiar with it. Finance issued the guidance just over a year ago, and there has been significant staff turnover throughout the City. Many employees are still learning their new responsibilities and are not yet fully aware of the new requirements for grant management.</p>
<hr/> Original Audit Recommendation #5	<p>We recommend that the payments be mailed to a central location such as Finance. We also recommend that the City submit a remittance slip with the grant billings which should be returned with the payment. The remittance slip should identify the fund account, project name, and amounts to which the payment applies.</p> <p>A copy of the check and remittance should be forwarded to Public Works so that the project managers and administration will be informed about the accounting activity related to their projects and can update their files. This processing procedure should be formalized and documented in writing.</p>
Management’s Reported Action Plans to Address Original Audit Recommendation #5	Public Works and Finance reported this recommendation as implemented. The departments agreed that central receipt of payments accompanied by a remittance slip with pertinent grant information would help ensure timely deposits and accurate recording of revenues. They agreed to include remittance slips with grant reimbursement requests, but said they could not control where the grantors mailed the reimbursements. In their experience, a grantor’s general practice is to send reimbursement checks to the individual who signed the grant application despite what mailing address is provided on a remittance slip.

Status of Original Audit Recommendation #5: Partially Implemented

Finance’s new grant management guidance, City Administrative Regulation 1.17, requires departments to develop their own system for ensuring that grant payments are recorded to the correct budget codes and grantors have the appropriate mailing address. Additionally, the regulation stipulates that departments are responsible for ensuring grant revenues are deposited to the proper revenue accounts upon receipt of payment.

Public Works created a summary of charges sheet to replace the use of a remittance slip. The sheet includes line items to list the project and account code and staff are expected to include the completed sheet in the billing packet mailed to the grantor. The codes help track grant deposits and monitor receivables. However, not all Public Works staff are using the sheet.

Original Audit Recommendation #6

We recommend that Finance review the Quarterly Report for obvious inaccuracies. We also encourage Finance to continue working with Public Works to ensure that the Quarterly Report accurately reflects Citywide information. If Public Works implements the Reconciliation (Recommendation 2B) which recommends that Public Works reconcile its detail ledgers to FUND\$ and the Quarterly Report prepared by Finance, and promptly informs Finance of variances, it would help to alleviate this situation.

Management’s Reported Action Plans to Address Original Audit Recommendation #6

Public Works and Finance reported this recommendation as implemented. The two departments confirmed that they work closely on preparing and reviewing quarterly grants receivable reports.

Status of Original Audit Recommendation #6: Unimplemented

In 1999, Public Works reported problems with using FUND\$. The department said its project managers have difficulty accessing and interpreting the system’s financial data; and that FUND\$ is “not an effective tool for managing large, multi-year, multi-fund capital projects.” In 2008, Finance hired a senior accountant (aka grants coordinator) to develop a “central grants repository” and help make grant monitoring and reporting more effective. Finance also moved from a quarterly to a semiannual reporting schedule. The grant coordinator created a grant database to serve as the central repository and track, record, and report on all City grants. However, the grant coordinator is not always informed of new grants or provided with the relevant account codes needed to look-up FUND\$ accounting transactions.

City Administrative Regulation 1.17 requires departments to complete a grant accounting data sheet and provide it to the grant coordinator along with a copy of the grant (i.e., contract package). The grant accounting data sheet provides all the pertinent data that the grant coordinator needs to record the grant to the grant database and obtain financial data from FUND\$ for grant reporting. However, not all City staff are using the form. This is most likely due to a combination of City Administrative Regulation 1.17 being fairly new and significant staff turnover, both of which we discussed earlier, and staff inadvertently bypassing City procedures. City policy considers any award of financial assistance to be a grant and, therefore, a revenue contract that staff must prepare in accordance with City contract procedures. Staff are not always clear on this requirement. Additionally, some granting agencies use a naming convention other than “grant” to define an award, which makes it unclear to staff that the agreement is considered a grant by City standards. The lack of clarity leads to staff inadvertently bypassing:

- Contracts Online, the City’s contract preparation procedures, which helps ensure agreements are recorded with the City Clerk’s Office for vital records retention.
- City Administrative Regulation 1.17, which helps ensure that staff use the grant accounting data sheet to provide the grant coordinator pertinent grants information for use in the grant database.

Knowing these procedures are overlooked, the grants coordinator must spend a significant amount time tracking down grant data to populate and update the grant database. This burden, along with already heavy workloads, prevents the grant coordinator from issuing the grant reports timely and ensuring that the reports are accurate and complete. Often months go by before the grant coordinator is able to prepare the biannual grant reports, meaning the information is already outdated by the time it is made available. Additionally, many employees involved with grant management do not know the report exists, and some find it confusing and hard to follow. City staff do see the report’s value, but would like something more intuitive, user friendly, and prepared on a timely basis.

Public Works Grants Follow Up Audit Recommendations and Management Response Summary

Audit Title: Public Works Grants Follow Up				
Findings and Recommendations	Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
Finding: Of our six original recommendations, only one is currently implemented, two are partially implemented, and three are unimplemented.				
Original recommendation #1 Partially implemented – New Recommendations:				
1.1	Issue an internal policy assigning the division responsible for overall grant accounting (e.g., billing and monitoring receivables) and reporting. Make it clear to project managers that they are responsible for providing information on the grants they manage to the appointed division to assist with grant accounting.	Public Works	Agree	July 1, 2016
1.2	Create a work team of Public Works staff who administer and manage grants. Team members should include the position responsible for overall grant accounting and reporting, and staff from the divisions that manage grants (e.g., Engineering and Transportation). The team should work collectively to evaluate their respective functions and their interrelated roles and responsibilities for grant management, billing, and accounting; and work towards developing an effective workflow that provides for accurate and timely grant accounting and reporting.	Public Works	Agree	September 1, 2016
1.3	Require the grants team to work collectively to develop a written procedures manual that clearly explains roles, responsibilities, and workflows. The manual should:	Public Works	Agree	October 1, 2016

Audit Title: Public Works Grants Follow Up				
Findings and Recommendations	Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
<ul style="list-style-type: none"> ▪ provide guidance on the overall grant application, approval, and monitoring process within the department ▪ refer to other applicable policies and procedures such as City Administrative Regulation 1.17 and Contracts Online ▪ describe the specific tasks performed within divisions and/or by job classification ▪ identify the forms and data sheets that staff are to use for recording, tracking, and monitoring grants (also see Recommendations 5.1 and 6.2) ▪ describe coordinating efforts needed between divisions and with the grant coordinator in Finance ▪ identify timelines and requirements for reporting, performing reconciliations, and providing information to the Finance grant coordinator (also see Recommendation 2.2) ▪ provide enough detail to more easily train new hires or staff with new responsibilities <p>As with all procedures, the work team should consider the manual a living document that they review and update regularly to reflect changes in practices, procedures, and assignments.</p>				

Audit Title: Public Works Grants Follow Up					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
1.4	Require the grants work team to have regular meetings to share information and discuss workflows between their divisions. These meetings may need to be more frequent at first, e.g., quarterly, and less frequent over time, e.g., annually. The team should invite the Finance grant coordinator to their meetings to ensure the coordinator is receiving the necessary information for recording grants to the central repository and issuing grants receivable reports.	Public Works	Agree	October 1, 2016	
Original recommendation #2 Unimplemented – New Recommendations:					
2.1	Provide the Finance grant coordinator with a list of personnel who are responsible for grant management, accounting, and reporting so that they can be notified when the grant coordinator posts the grant reports to the City's shared drive.	Public Works	Agree	September 1, 2016	
2.2	Require the division responsible for grants accounting and reporting to use Finance's grant reports to: <ul style="list-style-type: none"> ▪ reconcile Public Works' grant financial records with FUND\$ to ensure that the department is recording expenditures and payments to the correct accounts ▪ work with Finance to make any necessary corrections to FUND\$ financial data when they identify discrepancies and errors 	Public Works	Agree	October 1, 2016	

Audit Title: Public Works Grants Follow Up					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
	<ul style="list-style-type: none"> ▪ track grants receivable and follow up with grantors on outstanding receivables 				
Original recommendation #3 Partially implemented – New Recommendation:					
3.1	<p>Take ownership of City Administrative Regulation 1.16 and:</p> <ul style="list-style-type: none"> ▪ review and update the regulation so that it is consistent with City practices and procedures, and cross reference the regulation to other guidance and policies, e.g., Contracts Online and City Administrative Regulation 1.17 ▪ reissue the updated guidance to all City staff with emphasis on ensuring that project managers and those responsible for identifying and applying for grant funding are notified of the update 	City Manager's Office	Agree. The City Manager's Office is in process of updating Administrative Regulation 1.16 and 1.17 and will coordinate feedback from departments frequently involved with grant applications and processing of the updated Administrative Regulations.	July 1, 2016	

Audit Title: Public Works Grants Follow Up					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
Original recommendation #4 Implemented – New Recommendation:					
4.1	Request that all department directors notify their grant management and accounting staff of City Administrative Regulation 1.17, and their expectations that staff adhere to the guidance.	City Manager's Office	Agree. The City Manager's Office will issue the audit findings and discuss the updated AR 1.17 with department directors.	July 1, 2016	
Original recommendation #5 Partially Implemented – New Recommendation:					
5.1	Require those responsible for grant accounting to use the summary of charges sheet and work with project managers and the Finance grant coordinator to obtain the data they need to populate the sheet (also see Recommendations 1.3 and 1.4).	Public Works	Agree	October 1, 2016	
Original recommendation #6 Unimplemented – New Recommendations:					
6.1	Require that all department directors ensure that their staff with grant management and fiscal responsibilities receive the following training: <ul style="list-style-type: none"> ▪ City Administrative Regulation 1.17: Pre-Award Authorization and Post-Award Grant Requirements ▪ Contracts Online, in particular, the revenue contract requirements 	City Manager's Office	Agree. The City Manager's Office will coordinate training session(s) for assigned staff on the policies and procedures of AR 1.17 and revenue contract requirements.	November 1, 2016	

Audit Title: Public Works Grants Follow Up					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
6.2	Require all departments that receive financial assistance from a third-party to ensure that their written procedures clarify that all such awards are considered grants and must be packaged in accordance with Contracts Online, and to follow City Administrative Regulation 1.17 to ensure that the grant coordinator receives the grant accounting data sheet (also see Recommendation 1.3).	City Manager's Office	Agree. The City Manager's Office will coordinate training session(s) for assigned staff on the policies and procedures of updated AR 1.17 and revenue contract requirements.	November 1, 2016	
6.3	Notify department directors when the grant coordinator finds that project managers and administrative staff are not providing grant information in accordance with City policy. Request that the department directors refer their staff to City Administrative Regulation 1.17, Contracts Online, and departmental procedures for guidance on ensuring they adhere to required grant policies and procedures.	Finance	Agree. The correspondence will be drafted and sent out latest August 1, 2016.	August 1, 2016	
6.4	Add language to the revenue contract section of Contracts Online that clarifies all awards of financial assistance are considered grants and must be packaged in accordance with Contracts Online no matter the nomenclature used by the awarding agency.	Finance	Agree	June 7, 2016	Implemented June 7, 2016

Audit Title: Public Works Grants Follow Up					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
6.5	Survey project managers and administrative staff who are responsible for grant management, reporting, and accounting to identify ways to improve the current grant database and reporting so that data are current and accurate, and reports are more user-friendly.	Finance	Agree. Finance will work on the survey and collate the results by December 1, 2016	December 1, 2016	
6.6	Use the information learned from surveying project managers and administrative staff (Recommendation 6.5) to identify critical business needs for the purchase of a comprehensive grants management system. Provide this information to the Department of Information Technology to use as part of Enterprise Resource Planning.	Finance	Agree.	December 1, 2016	

APPENDIX C

Examination of Department Director Transition Procedures Follow Up Audit Finding Detail Submitted to City Management April 19, 2016

- Original Audit Recommendation #1** We recommend that the Personnel Department (Human Resources) complete the update of the City Property Checklist and submit the updated City Property Checklist (form) to the City Manager’s Office for review and approval. We also recommend that the City Manager instruct Department Directors to maintain completed City Property Checklists for every employee in their department. These checklists should be initiated at the time the access and custody of assets are given. It should be completed when access and custody are removed. These checklists should be properly organized, current, and should be made available for periodic auditor review. When an employee’s relationship with the City terminates, the employee’s supervisor should formally request that the outgoing employee return all keys, building entry permits/passes, identification badges, etcetera, initially issued to him or her. The City Property Checklist should be completed identifying items returned. Missing items should be documented with a brief explanation. Determination as to whether employees should reimburse the City for the missing items should be made. If reimbursement is not made, an explanation should accompany the City Property Checklist. We recommend that this checklist procedure ultimately be the responsibility of the Department Directors.
- Original Audit Recommendation #2** We recommend that the City establish formal guidelines for Department Directors to ensure that former Department Directors no longer have access to the department’s assets, to ensure that equipment used by the former Department Director has been returned and accounted for, and to ensure that resignation procedures are completed, including a formal exit conference.
- Original Audit Recommendation #3** We recommend that signatory authority of Department Directors and/or designated employees should be established, approved in writing in a timely manner, submitted to the appropriate departments, and updated regularly. This applies both to applicable City departments and to commercial institutions. Department Directors should not authorize their own signatory authority. There should be formal guidelines established identifying who will authorize a Department Director’s expenditures, access to assets, and authorization ability.

**Management’s
Reported Action
Plans to Address
Original Audit
Recommendations
1-3**

Management reported the recommendations as implemented. The Human Resources Department issued Administrative Regulation 2.4: *City Property – Issuance and Retrieval*. The purpose of the regulation is to ensure the proper safeguarding of City assets held in the custody of City employees through the implementation of a property checklist system. The regulation defines City property; gives guidance for new hires, transfers, promotions, and separations; provides specific information for network and FUND\$ access and removal of access; briefly discusses department director transitions; and provides a City property checklist form. The regulation also explicitly states that its procedures apply to department directors with the exception that departing directors are to meet with the City Manager to facilitate the property retrieval process.

Human Resources updated and reissued the City policy as Administrative Regulation 2.6 in September 2005. The revision included a more robust City property checklist but the underlying purpose of the regulation remained the same: To provide a system and mechanism for documenting the issuance and return of City property.

**Status of Original
Recommendation
#1: Partially
Implemented**

Administrative Regulation 2.6: *City Property – Issuance and Retrieval* is in place and includes a checklist for tracking City property and systems access given to City employees. The regulation assigns the responsibility for safeguarding the original property checklist to the employee’s immediate supervisor. In the case of department directors, that responsibility rests with the City Manager. When an employee transfers or exits City service, the supervisor is to then to document retrieval of property on the original City property checklist and submit the checklist to Human Resources for inclusion in the employee’s personnel file. Despite this, the City Manager’s Office was not able to provide evidence of completed City property checklists for department directors hired between August 2014 and October 2015, and Human Resources was not able to provide evidence of completed checklists for eight department directors who left their City service employment during that same period.

The City also implemented Administrative Regulation 2.15: *City Issued Communication Equipment*. According to the regulation, the Finance Department’s General Services Manager is responsible for administering the policy, but that function is now in Information Technology (IT). The IT staff member currently administering the policy explained that IT uses an online service request system to document issuance of communication equipment, not a hardcopy form as described in the regulation. The regulation has not been updated to reflect these changes. The IT staff member administering

Administrative Regulation 2.15 could not locate the forms maintained by her predecessor and explained that IT documents only the issuance of equipment, not its collection. Therefore, IT could not provide us with evidence verifying that communications equipment was issued and retrieved from department directors in accordance with City policy.

The intent of City’s property and equipment regulations is rendered meaningless without evidence supporting the issuance and retrieval of City property. The ability to confirm retrieval of City assets from department directors holds more significance than it does for other employees given their level of responsibility and their control over and access to City assets. For example, we were asked to look into the practices for retrieving City facility keys issued to department directors. City management had concerns over the process. We encountered some confusion among staff as to who was responsible for tracking keys during the transition process, yet the City’s’ property checklist provides a line item specifically for tracking building and office keys. The confusion over keys as well as completing and maintaining City property check lists for department directors can be contributed to lack of clear procedural guidance describing roles and responsibilities.

**Status of Original
Recommendation
#2: Unimplemented**

Administrative Regulation 2.6: *City Property – Issuance and Retrieval* includes a brief paragraph stating that the policy applies to department directors. This is not enough to address the recommendation. As mentioned above, given the level of control and authority that department directors have, formal guidelines for transitioning directors out of City service need to go beyond retrieving City property and removing access rights. The intent of our original recommendation was for the City Manager’s office to have resignation procedures in place that help ensure a transfer of knowledge as well as safeguard City assets. This happens through formal exit conferences and a clear delegation of duties to those responsible for supporting the City Manager’s Office role in removing all department director authorities and access, and retrieving property. The City Manager’s Office said that informal exit conferences are conducted, but does not have guidelines for this process. This, and the absence of City property checklists, suggests that not all assets were accounted for and access rights removed, and that there may have been gaps in the transfer of knowledge when former directors separated from the City.

**Status of Original
Recommendation
#3: Partially
Implemented**

The single status report to Council did not specifically address this recommendation. However, the City has issued the following administrative regulations addressing the delegation and removal of signature authority: (1) Administrative Regulation 3.12: *Authorized Signatures for Invoices and FN-024 Payment Vouchers* in November 1995; (2) Administrative Regulation 3.18: *Establishing and Closing Bank Accounts* in May 2006; and (3) Administrative Regulation 3.24: *Requirements for Preparing, Reviewing, and Approving Adjusting Journal Entries* in April 2013.

We reviewed the signature authority transition process for adjusting journal entries, as well as the process for accounts payable payment vouchers, bank accounts, and credit cards. We found no exceptions related to bank accounts or credit cards, and only minor exceptions with regard to accounts payable vouchers and adjusting journal entries. This was largely due to the failure of departments to timely notify Finance of changes in signature authority. Although Finance staff exercised due diligence in updating changes in signature authority with or without notification, we considered the recommendation partially implemented due to the failure of departments to timely notify Finance in accordance with City policy.

Examination of Department Director Transition Procedures Recommendations and Management Response Summary

Audit Title: Examination of Department Directors Transition Procedures Follow Up Audit					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
Finding: Of our original recommendations, Recommendations #1 and #3 are currently partially implemented, and Recommendation #2 is unimplemented					
New Recommendations:					
1.1	Develop and implement clear procedural guidelines for the department director transition process that ensure: <ul style="list-style-type: none"> ▪ Finance is notified of changes in signature authority when the transition takes place ▪ Information Technology is notified of changes in access authority when the transition takes place ▪ The incoming director is briefed on knowledge transfer ▪ Uniform formal exit briefings between the City Manager and exiting directors take place that include a transfer of knowledge discussion and confirmation that all assets have been returned ▪ Assignment of responsibilities to staff who will assist the City Manager in completing and updating the City’s property checklist for department directors, both incoming and exiting 	City Manager	Agree	July 1, 2016	In progress

Audit Title: Examination of Department Directors Transition Procedures Follow Up Audit					
Findings and Recommendations		Lead Dept.	Management View and Corrective Action Plan	Implementation Date	Recommendation Status and Implementation Progress Summary
	<ul style="list-style-type: none"> ▪ Assigned staff (a) maintain original checklists for current directors; (b) forward final property checklists for exiting directors to Human Resources; and (c) obtain confirmation from Human Resources of receipt of checklists for exiting directors. 				
1.2	Complete City property checklists for all current department directors.	City Manager	Agree	June 10, 2016	Due to Deputy City Manager by June 10, 2016 to copy to Human Resources
1.3	Update and revise Administrative Regulation 2.15, <i>City Issued Communication Equipment</i> to reflect that the department is responsible for the regulation, describe current practices, and include procedures for recording retrieval of the equipment.	Information Technology	Agree. IT updated AR 2.15 to reflect that the department is responsible for the regulation and to define its procedures. The City Manager published the revised AR to iCoBWEB on December 10, 2015. IT is now working on an additional update to define protocols for returning equipment and updating IT equipment inventory records.	January 17, 2017	