



Office of the City Auditor

Attachment I
June 10, 2003

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor *amh*

Subject: AUDIT PLAN FOR FISCAL YEAR 2004

Completion of the following audits that are currently in progress:

- Information Technology – internal controls (this may become a series of audits, given the degree of inherent risk)
- Contracts and procurement compliance with Council policy and best practices; bidding, authorization, change orders, and timeliness of execution will be addressed
- Internal controls to prevent fraud in purchasing and payables
- Change orders for construction contracts

Included in the City Auditor's fiscal year 2003 Audit Plan was an audit of youth services programs. This audit has been removed from the audit plan for the time being, based on our discussions with Council and the City Manager regarding audit priorities, and because a report on youth services was prepared this year by the City Manager.

New audits for FY 2004 will include:

- Parking enforcement
- Interagency and interdepartmental coordination of streets and sidewalks repairs (Public Works Department)
- Medi-Cal billing and reimbursement - affect of future reductions in reimbursement (Health and Human Services Department)
- Audit of the Library (requested by Library)
- Customer service/telephone response in City departments
- Continuing Business License tax revenue audits of taxpayers

Depending upon our ability to timely fill a currently vacant Senior Auditor position, we will also include:

- Follow-up on past due audit responses and recommendations from previous audits, particularly in the areas of grants billing, construction contract oversight, and Citywide payroll.
- Project management accounting
- Workers' compensation
- Additional revenue audits

BACKGROUND:

Article X, section 61 of 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. The Charter also states that the Auditor shall consult with the Mayor, City Council, and City Manager regarding the selection of audit entities, but that the final decision of what to audit shall remain with the Auditor.

Developing the Audit Plan

Priorities for audit work were identified by assessing risk and cost-benefit of possible findings and recommendations, and addressing needs for development of information required by decision makers in order to take action. Planning meetings with the City Manager and staff and the Council Ad Hoc Audit Advisory Committee were a key part of developing the audit plan.

The potential impact of budget reductions on City services and activities was a significant factor in prioritizing ideas for the audit plan. In any organization, when cuts are implemented in support and management control services, there is heightened risk that internal controls will weaken significantly. Because of this, we continue to focus on areas where internal controls are a concern or can be expected to deteriorate under the pressure of budget constraints.

We also planned our audits to effectively utilize computerized audit tools that were acquired recently. The new audit software, Audit Command Language (ACL), should improve our ability to detect internal control weaknesses, as well as generate additional revenue for the City.

FINANCIAL IMPLICATIONS:

- Business License revenue from compliance audits is projected to be \$125,000 annually per FTE assigned.
- Work plan assumptions include a vacancy rate of approximately 1.5 FTE in General Audit, because of budget reduction requirements (funding for one of the entry level auditors was eliminated from the 2003 budget). This reduction will affect revenue generation, contracts oversight, and audit report completion. However, improvements in audit productivity anticipated as a result of our investment in specialized audit software this year might mitigate these impacts.
- Long range financial benefits of the audit reports, which result in improvements to internal controls and improved efficiency and effectiveness of delivery of Citywide services, are also significant.

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Approved by:



Ann-Marie Hogan, City Auditor
Office of the City Auditor