

Office of the City Auditor

INFORMATION CALENDAR

June 28, 2005

To: Honorable Mayor and  
Members of the City Council

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

Subject: AUDIT PLAN FOR FISCAL YEAR 2006

INTRODUCTION

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. Following is our fiscal year 2006 audit plan.

SUMMARY

Audits in the fiscal year 2005 Audit Plan that are currently in progress, to be completed during fiscal year 2006, are:

- Audit of City loan programs (Housing Department)
- Follow up audit on implementation of selected cash receipts/cash handling audit recommendations

Audit, training, and oversight activities that are continuous, and will also be performed next year include:

- Monitoring of safeguards over City resources through such activities as surprise cash counts and pre-audit of certain expenditures and contracts
- Monitoring and tracking the implementation status of audit recommendations from previous audits, primarily by reviewing City Manager progress reports to Council
- Auditing City businesses for underreporting and/or lack of compliance with business license requirements
- Providing training in Internal Controls and Fraud Prevention to all City employees.

One major audit will be added to next year's work plan, as the first of a series of comprehensive reports focusing on the efficiency and effectiveness of operations in large City operating departments, as requested by the Council Audit Advisory group. New audits will include:

- Fire Department performance audit
- Limited scope contract compliance audit requested by Parks Recreation and Waterfront Management
- Follow up audit in Public Works Engineering (*Audit of Public Works' Construction Contracts, issued on June 20, 2000*)
- Review and audit of other (in addition to Business License tax) potential City revenues not currently identified

Audits in the fiscal year 2005 Audit Plan that *may* be completed during fiscal year 2006 if current vacancies are successfully and timely filled, are as follows:

- Survey of performance measures in City departments
- Audit to identify costs of City services (including overtime and lost time analysis)

If staffing level does not permit completion of these two projects as comprehensively as originally planned, more limited work in these areas may be incorporated into the Public Safety performance audits over the next two years. There are a number of requests for audits from operating departments that may be reconsidered once we are fully staffed. Many are in the area of follow up or expansion of previous audits in areas where poor performance of City administrative systems appears to be hampering the productivity of operations and the availability of reliable performance data.

Two audits have been dropped from the 2005 plan:

- Parking tickets: This audit, aimed at identifying internal controls regarding parking tickets, has been dropped or deferred primarily due to lack of staffing but also due to a change of approach. After discussion with Council members and the City Manager, a decision was made, for 2006, to prioritize effectiveness and efficiency audits as well as preventing, rather than merely detecting after the fact, internal control weaknesses. The City Manager has directed that all City employees must now attend the auditors' Internal Controls and Fraud Prevention training. Our plan is to conduct training for 900 employees next year.
- Potential financial impacts of a proposed Berkeley Fire Department consolidation with the Alameda County Fire Department: this report, requested by the City Manager, was not completed. Some preliminary investigation was performed by audit staff and by City Manager staff. After City Manager staff completed a financial analysis of the proposed consolidation, the Manager reported to Council that there did not appear to be a need for additional work, because there did not appear to be a fiscal benefit to such a consolidation. Some of the preliminary work performed in planning this engagement may be used in the Fire Department performance audit.

### **Developing the Audit Plan**

Priorities for audit work for 2006 were identified by assessing risk and the cost-benefit of possible findings and recommendations, and evaluating the information needs of decision makers. Planning meetings with the City Manager and various City staff and the Council Ad Hoc Audit Advisory Committee were a key part of developing the audit plan.

Prioritizing the many requests received for audit services was challenging due to the staffing constraints affecting our ability to complete this year's plan. The unanticipated and extended absence of the Audit Manager, as well as the continued difficulty in recruiting and retaining an incumbent in one of the staff auditor positions, forced the auditors to scale back this year's plan.

The Council Audit Advisory Committee had previously requested that we perform a Service Efforts and Accomplishments (SEA) Report, similar to those issued by Palo Alto and Portland, Oregon.

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However, after determining how many staff hours were required to perform such a project, we decided, instead, to focus on two large operating departments each year, over the next five years. We were asked to do Fire and Police in the first year, and, given the staff vacancies, are committing to starting with Fire.

The decision to begin with Public Safety was made partly because of the high level of Council and public interest but also because these departments have a smaller number of total programs than some of the other operating departments. This should translate into more thorough analysis completed with less staff time in the first year of the plan, compared to the alternative of beginning with one of the departments with a large number of individual programs.

We also planned our audits, particularly our revenue audits, to effectively utilize computerized audit tools. The audit software, Audit Command Language (ACL), should improve our ability to detect internal control weaknesses in our audits and in our continuous monitoring activities, as well as generate better information and additional revenue for the City.

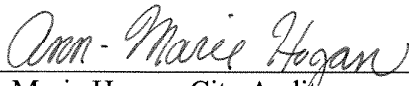
FINANCIAL IMPLICATIONS:

- Business license revenue from compliance audits has historically been projected to be at least \$150,000 annually per FTE assigned. One objective of our audit work in this area in 2006 will be to evaluate the long-term reasonableness of this assumption, given the number of unlicensed businesses already identified.
- Long range financial benefits for the audits completed in FY2006 should result in significant improvements to internal controls and improved efficiency and effectiveness of delivery of Citywide services.

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Approved by:

  
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