



Office of the City Manager

INFORMATION CALENDAR

June 20, 2006

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Submitted by: Ann-Marie Hogan, City Auditor

Subject: Audit Plan for FY 2007

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 FY 2007 audit plan.

SUMMARY

Audits in the FY 2006 Audit Plan to be completed during FY 2007 are:

- Fire Department performance audit
- Public Works Engineering audit, to include follow up on the *Audit of Public Works' Construction Contracts, issued on June 20, 2000*

One audit was dropped from the 2006 audit plan. This was a review of the potential for increasing identification and collection of a variety of City revenues through increased audit work. Instead, the auditors met informally with Finance staff to discuss revenue work currently being performed, and planned for next year, in both Finance and the Auditor's Office.

New audit work will be a continuation of the multi-year plan to complete 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.

- The Fire Department study is in its planning phase.
- The Police Department will be studied once the Fire Department audit is completed. A review of internal controls over the Police evidence room will be included, at the request of the Police Chief.
- An audit of Medi-Cal risks has been requested by the City Manager.

A survey of performance measures in City departments and an audit of costs of City services had been planned as an addition to the 2006 audit plan only if staff vacancies were filled timely. Due to persistent vacancies and staffing cuts in the Performance Audit Division, instead, performance measurement reporting and service costs, including overtime and lost time analysis, will be included in the audits of Fire, Police, and Public Works Engineering. The audits will also continue to include audit steps related to employee safety.

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 compliance with business license requirements and for underreporting of gross receipts. The auditors will be developing enhanced systems for locating unlicensed businesses, using existing audit software (ACL).
- Supporting current revenue identifications efforts in Finance by providing backup services on an as-needed basis in areas such as parking lot tax and hotel tax.
- Providing training in Internal Controls and Fraud Prevention to all City employees.

Developing the Audit Plan

Selection of audits, and the decision to continue with the multi-year plan agreed upon last year was based on a review of risks and opportunities. The City Auditor consulted with the City Manager, Department Directors, and the Council Audit Advisory Committee to identify information needed to help improve decision making and program performance through audit findings and recommendations.

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 as part of our audits and our continuous monitoring activities, as well as to generate better information and additional revenue for the City.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

- Business license revenue from compliance audits has historically been projected at \$125,000 to \$150,000 annually per FTE assigned. This target was not met in 2006. Accordingly, in 2007 we will 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.

CONTACT PERSON

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