



Office of the City Auditor

COUNCIL INFORMATION

June 25, 2002

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: FISCAL YEAR 2003 GENERAL AUDIT WORK PLAN

Next year's work plan for the General Audit division of the City Auditor's Office will include:

1. Internal controls: information technology
2. Additional cash handling audits
3. City Vehicle costs and controls
4. Contracts and procurement
5. Youth services programs
6. Health Department
7. Internal controls: purchasing and payables
8. Ongoing Business License Tax audits (revenue identification)
9. Follow up on implementation of prior audit recommendations, including Transfer Station, Citywide Payroll, and Grants Billing audits.

The first five audits are carryovers from last year's plan. Based on information obtained from discussions with management, some objectives have been revised. A previously requested audit, Asset Forfeiture expenditure analysis, has also been dropped from the audit plan.

Cash handling audits of various Parks Department locations and Finance/Treasury are currently substantially completed and will be delivered to Council after recess, as will the annual Business License Tax Report and a limited purpose audit of construction contracts.

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.

Criteria for selecting these audits

This year's audit plan was developed in the shadow of significant City budget cuts, which are currently projected to increase steadily over the next four years, according to the City Manager's reports to Council.

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, and because of continued evidence of weak internal controls in past audits, we are focusing in this area.

Internal controls, in the broadest sense, are all of the means devised to promote, govern, and check upon various activities for the purpose of seeing that enterprise objectives are met (Institute of Internal Auditors).

Internal controls in the City also serve the purpose of promoting equity, public accountability, and fair disclosure of expenditures and activities. Good internal controls, including the control environment,

- protect the innocent from false accusation
- protect the weak from opportunity, and
- protect the strong from temptation.

Pending/Deferred Requests for Audit

Over twenty specific suggestions for audits and investigations, requested by management in City departments, appeared to be potentially valuable projects, but could not be included in our plan. In some cases, we were able to suggest ways in which objectives could be achieved using resources within the departments, or to obtain the information the requestors needed. In others, we will attempt to fulfill some part of a request in the context of our follow up audit work, and contracts and procurement reports. Requests for performance audits and evaluation of programs in their own departments were made by several operating department managers. Community agency contract monitors made suggestions for agencies in need of audit. Other concerns were issues of service delivery and performance in the support departments, equitable distribution of City resources, and reliability of accounting and management information. Abuse and waste of City resources in a variety of areas, including overtime and misuse of the workers compensation system, were also noted. The auditors very much appreciate and respect the commitment to continuous improvement of City services reflected in the thoughtful suggestions put forward by management.

Cutbacks/reprioritization of services

By Charter, the City Auditor countersigns and registers all contracts. Contracts are reviewed by entry level auditors, who also perform business license revenue audit work. Contracts found to be out of compliance with Council policy, budgetary, risk management/legal, or Charter requirements are returned to the Department for correction. For example, 56 contracts and amendments were returned to departments this year because of non-compliant contract language, no Oppressive State disclosure, no Competitive Solicitation waiver, no Living Wage form, no Nuclear Free Disclosure form, or no Workforce Composition information. Council action regarding Living Wage and Equal Benefits contract requirements necessitated significant changes in City Attorney contract boilerplates, contract instructions, forms, etc last year. The result was a significant increase in contract deficiencies, and an unexpected increase in time needed to review contracts.

As planned, the auditors assisted the City Manager in revising the forms and instructions, and in posting them on-line so that, effective July 1, all City staff has access to the improved forms and information. Given the extent of proposed budget cuts, and the ready availability of information to departments, the auditors will conduct a one year pilot project to replace 100% sampling with minimal sampling.

We will report the results to Council in the form of audits, which will include our findings, recommendations, and target dates for compliance for the departments. This will allow us flexibility to allocate the impact of our position cut between oversight and revenue identification. In addition, rather than simply returning the contracts to the department, we will use audit resources to investigate the causes of continuing problems with contracts, and recommend solutions.

One final item on our current work plan, as published in the City Manager's budget book, is our plan to complete a revision of the Citywide Contract Management database this year. This project may need to be dropped or deferred to the following year, depending on resources available in other Departments as well as our own.

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. We will continue to involve the City Manager in discussions related to the prioritization of revenue identification vs. contract compliance and other audit work, in the context of the five year forecast. There are long range financial benefits to improvements to internal controls and implementation of other recommendations for improved efficiency and effectiveness of delivery of Citywide services.

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Approved by:

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