



Office of the City Manager

CONSENT CALENDAR

May 16, 2006

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Submitted by: Ann-Marie Hogan, City Auditor

Subject: Delayed Implementation of Audit Recommendations

RECOMMENDATION

That Council request the City Manager continue to report back to Council regarding the causes and affects of unimplemented audit recommendations, and the potential costs and timelines for resolving them.

INTRODUCTION

On January 13, 2005, the City Auditor office submitted a report alerting Council to a specific negative trend: the number of audit recommendations implemented promptly (i.e. before the audit report was published) had diminished consistently over the course of three years. The report asked Council to request the City Manager take the following steps to address the causes and effects of delays in implementing audit recommendations the City has previously agreed to implement:

1. Report back to Council regarding causes for difficulties in implementing audit recommendations.
2. Investigate the possibility that the short term or longer term impact of budget-related cuts and freezes may have impacted oversight/support functions Citywide to a degree that poses an unacceptable risk of loss of City assets and diminished oversight of efficient and effective performance because of weakened internal controls.
3. To the extent possible, include an analysis of potential internal control impacts in future discussions of City budgets, as well as estimated costs for resolving them.
4. Take such additional steps as Council may determine after discussion

CURRENT SITUATION AND ITS EFFECTS

The City Manager agreed to return to Council in the Spring of 2006 with a “preliminary report” on these matters. The auditors provided a database of audit recommendations to the City Manager to assist him in his analysis. This database is primarily used by our office for tracking audit recommendation implementation over the last three years. Some, but not all, of our previous audit reports are also in the database.

May 16, 2006

There is some indication that the report requested from the City Manager will be on tonight's agenda. Since there has not been an opportunity to review and reconcile the data, the auditors do not express an opinion on the accuracy of any data that has been extrapolated from our reports.

However, new information about the causes and effects of unimplemented audit recommendations is contained in the Follow-up Cash Receipts/Cash Handling Audit on tonight's agenda. This audit reports on the status of certain audit recommendations previously reported implemented by the City Manager which were subsequently found not to be fully resolved.

Some of the reasons noted by the management in response to our finding appear to support the possibility noted in our earlier report about impacts of budget-related cuts and freezes. Particularly in some of the areas mentioned in our previous report, there may be an unacceptable risk of loss of City assets and diminished oversight of efficient and effective performance because of weakened internal controls.

#### FISCAL IMPACTS OF RECOMMENDATION

The cost of implementing internal control improvements should not exceed the benefit. The City Manager will need to estimate the cost of implementing our recommendations and weigh these costs against the ongoing cost of the weak controls we have found in our audits. It may be that service delivery reductions will be proposed in order to free up resources to control the identified risks. This may require Council action in the future.

#### BACKGROUND

On December 9, 2003, the City Auditor submitted to Council the information report Internal Control Risks Associated with Budget Cuts and Freezes, in response to a request Council made during the presentation of the City Auditor's Budget Discussion and FY2004 Audit Plan on June 10, 2003. These reports (and all audit reports discussed in this item) can be found on the City's website at <http://www.cityofberkeley.info/auditor/currentaudits.htm>. Council then asked if the Auditor could monitor the impact of the budget cuts and alert the Council if it appeared that internal control risks were heightened.

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May 16, 2006

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RATIONALE FOR RECOMMENDATION

Although the auditors do not generally provide estimates of the cost of implementing our recommendations, care is taken to avoid making suggestions that are not economically feasible. However, staff reports indicate that implementation of some basic internal controls and systems improvements may not be feasible within current resources. This could indicate a need for City Manager and Council action in re-prioritizing allocation of resources.

ALTERNATIVE ACTIONS CONSIDERED

One alternative to the implementation of audit recommendations aimed at reducing risk of loss of City assets would be for Council and the City Manager to formally decide not to make the improvements, and to formally accept the risk of doing so. However, even this should not be attempted without a more comprehensive analysis of the costs and the benefits of making these previously agreed-upon improvements.

CONTACT PERSON

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