



Office of the City Auditor

INFORMATION CALENDAR

February 17, 2004

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Amendment to fiscal year 2004 Audit Plan

INTRODUCTION

On June 10, 2003, the Audit Plan for the current fiscal year was presented to Council. As required by the City Charter, the Council is notified when the Auditor finds it necessary to modify the annual plan. This report details revisions to the plan. These changes were made after consultation with the Council Ad Hoc Audit Advisory committee and with the City Manager.

CURRENT SITUATION AND ITS EFFECTS

A vacancy in an Auditor I position and a Senior Auditor position has resulted in a shortage of available staff to complete the plan. At the same time, audits completed or in progress of internal controls over purchasing and payables have revealed areas of high inherent risk, requiring additional audit work. The need to devote more audit resources to identifying control risk in purchasing functions may be expected to increase due to pressures to protect front line services at the expense of eliminating oversight functions. Finally, Council and the City Manager have advocated redirecting audit resources to internal controls over billing.

After discussion of the relative risks and benefits in delaying other audit projects, the auditors agreed to perform a survey of internal controls over billing of the City's parcel-based assessments and taxes. We will also be deleting two planned performance audits, Interagency and Interdepartmental Coordination of Streets and Sidewalks Repairs and Customer service/Telephone Response in City Departments, as well as reducing staff time for Business License tax revenue audits. We have added an audit of internal controls in purchasing and payables in Public Works, based on our previous work in accounts payable.

Addition of the billing review should result in development of objective information about the extent to which internal controls in this area provide a reasonable assurance that taxpayers will be billed accurately, and reasonable safeguards against fraudulent or inequitable actions related to billing. One previous audit in this area, Clean Storm Water Assessment, resulted in an immediate identification and subsequent billing of \$140,348, in addition to making specific recommendations for fixing underlying internal control weaknesses.

The effect of delaying or eliminating other audit projects will be lost opportunities for improved performance of City programs and lost opportunity for identifying high-risk weaknesses in internal controls.

Staffing for the Business License tax audit program was planned at 1.5 FTE, and has been reduced to .5 FTE. This will affect revenue generated. However, the auditors have determined that the dollars at issue are less significant in the Business License tax area than in the other areas that we will continue to audit.

BACKGROUND

This year's Audit Plan emphasized audits related to internal controls over information technology, contracts and procurement, and fraud prevention in purchasing and payables. We issued an audit of general controls in Information Technology and in Accounts Payable. A second Information Technology audit is underway, as are audits of Medi-Cal billing and several audits in the areas of internal controls over contracts and procurement, as planned. An audit of Parking Enforcement will be initiated as soon as the new Senior Auditor begins work. The Senior Auditor position was not yet filled as of the end of January, but we expect to have the position filled in March so that we can continue with our reduced audit plan for the year. Our successful Business License tax revenue audit program continues, though with fewer available resources than planned.

As noted in our previous Council report, "depending on ability to timely fill a current vacant Senior Auditor position," we also hoped to perform follow up on past due audit responses or implementation in areas of grants billing, construction contract oversight, and Citywide payroll. These will be dropped from this year's audit plan, except to the extent that limited follow up on Health Department grants billing may be addressed in the Medi-Cal audit.

Our contemplated performance audit of Worker's Compensation and Lost Time has been replaced by more limited, targeted audit work in each of our operating departments. While conducting our audits of procurement in the departments, we are also analyzing controls in place over employee safety and excessive lost time.

Finally, had vacant staff positions been filled, we had also planned an audit of Project Management Accounting. This audit will be dropped. While it appears that there are significant weaknesses in the City's project performance accounting systems in several departments, there are also concerns about the likelihood that the City may not choose to devote the significant resources that would be needed to implement meaningful improvements in this area.

CONTACT PERSON

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Approved:

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