



Office of the City Auditor

INFORMATION CALENDAR

March 13, 2007

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Outstanding Audit Recommendations

INTRODUCTION

The City Auditor's Annual Report, presented to Council on February 13, included an "Open Audit Status Report". Nineteen audits on the list, performed between 1997 and 2006, contained 104 audit recommendations which to date have not been reported as implemented by the City Manager.

CURRENT SITUATION AND ITS EFFECTS

After reviewing the open audit report, the ad hoc Council audit advisory group asked the auditors to identify the most significant reports or issues. The following audits contain findings with important Citywide negative impact. The recommendations require leadership from oversight/support departments as well as changes in priorities and practices for operating departments:

- Grants Audits (Public Works Grants Audits issued September 16, 1997)
- Departmental Budget Monitoring Audit (issued November 23, 1999)
- IT audits, including the FUNDS\$ Change Management Audit (issued May 4, 2005)
- Cash handling audits, including the Cash Receipts/Cash Handling Audit –PRW (issued September 17, 2002; outstanding recommendation is for Finance Department)

These reports can be viewed on the City Auditor's website at:

<http://www.ci.berkeley.ca.us/auditor/currentaudits.htm> The effect of delays in implementation include inefficiencies, unacceptable levels of risk, delayed receipt of revenues, and/or lack of transparent and clear reporting of fiscal/budgetary information. Implementation of recommendations made in these and other audits result in reduced risk, increased revenue, and better accountability for City assets and resources.

The City Manager agrees that these are critical areas and states that resources have been or will be allocated to address them.

BACKGROUND

A significant benefit of performing audit work in house, rather than contracting it out, is that we are able to track and follow-up on the status of findings and recommendations on a continuing basis.

In recent years, there have been increasing delays in the timely implementation of audit recommendations. This may relate, to some extent, to budget cuts and freezes. Limited resources were stretched to keep front line services running at the expense of baseline oversight and administration. The auditors provide analysis of potential impacts in reports to Council: “Internal Control Risks Associated with Budget Cuts and Freezes” on December 9, 2003, “Delayed Implementation of Audit Recommendations” on December 13, 2005, and “City Auditor’s Annual Report for Fiscal Year 2006” on February 13, 2007. These reports can be viewed on our web site at: <http://www.cityofberkeley.info/auditor/currentaudits.htm>.

The **Departmental Budget Monitoring Audit**, issued in 1999, found a need for better defined departmental accountability for budget performance. We recommended that the Budget Manager require departments to prepare their own quarterly reports on budget activity, budget variances, and year-end projections. Identified barriers to accomplishing this included incorrect and untimely information in the City’s financial systems software, **FUND\$**, as well as possible deficiencies in the **FUND\$** software design, testing, and use.

We also found that the City had not established minimum skill requirements, written guidelines, and formal training for budget monitors. In the City Manager’s November 14, 2000 report to Council, the former Budget Manger identified some key requirements. These included proficiencies in accounting appearing to require completion of college level coursework in basic accounting (financial), cost accounting (budgetary), and fund accounting (governmental), as well as public budgeting, and proficiency in spreadsheets and database applications.

Although the job description for the classification Senior Budget Specialist was updated to require the completion of nine college semester units in accounting, there is only one such position budgeted in the City. Classifications typically assigned to budget monitoring, such as the Assistant, Associate, and Senior Management Analyst and the new Public Safety Business Manager have no specific accounting coursework requirements.

By contrast, the Budget Manager’s suggested requirement of proficiency in spreadsheet and database applications is included in the posted job requirements for the analyst classifications. However, Human Resources does not test for these proficiencies when creating approved hiring lists for analysts or for clerical staff. Implementing such testing is under consideration.

The **Grants Accounting** audits, such as the **Public Works Grants Audit** issued in 1997, found untimely billings significantly impacted City cash flow. Although most recommendations were reported implemented at the time, it appears that the systems put in place to correct the problem are not sufficiently comprehensive, or have not been sufficiently maintained. Finance has identified this as an issue and has initiated a major new project in this area.

The Public Works Department noted at the time of the audit that project managers in the Engineering division cited problems with using the City's computerized financial system, FUNDS. Based on the many findings regarding the FUNDS system that have appeared in subsequent audits, it appears reasonable that difficulties with the system continue to impact the effectiveness and efficiency of monitoring activities.

A number of critical recommendations from Information Technology (IT) audits, including the **FUNDS Change Management Audit** issued May 4, 2005, have still not been reported implemented. Additional audits such as the cash handling audits contain repeat findings regarding the risk of loss of City assets because of inadequate security in the FUNDS financial systems software. Other deficiencies in the software have also been identified in audits.

As noted in the City Manager's report to Council on May 16, 2006, there are fundamental flaws in the FUNDS software, the City's modified version of a suite of applications purchased from Sungard-HTE (formerly HTE). Deficiencies in design, installation, support and training have been identified. According to the report, the City Manager included resources in the current budget in order to "craft a partial solution through internal programming." The report concluded that "the long term solution through the vendor must be vigorously pursued, and both Finance and Information Technology have been so directed."

The **Cash Receipts/Cash Handling Audit –Parks, Recreation and Waterfront** is one of several audits of cash handling Citywide issued over the course of several years. There is only one outstanding recommendation for this particular audit. The Finance Department was asked to provide annual training in cash handling.

The Finance Department and many operating departments made a substantial investment in staff time to correct conditions noted in these reports. However, the cash handling training initiated several years ago has not been conducted annually. I have included this one audit, and this one recommendation, because training is the kind of baseline activity that gets short shrift during times of budget cuts. Training and oversight are, however, essential to the efficient and effective conduct of City business and the protection of City assets.

POSSIBLE FUTURE ACTION

All of these audits are scheduled for reports to Council by the City Manager in April or May of 2007. Many of the recommendations were previously reported as "partially implemented." The auditors are aware that the acting Finance Director has proposed a new project to improve grants management, and that staff is planning to re-institute annual cash handling training and launch a budget monitoring training effort. Human Resources is also considering Excel testing. Increased funding aimed at implementing some Information Technology improvements has been budgeted.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Implementation of recommendations to hold annual training for budget monitors and cash handling will require resources from Finance and the Budget Office. Vigorous pursuit of vendor improvements to the FUNDS software and service will require resources from Finance and IT. However, benefit from implementation is expected to exceed the cost.

Implementation of recommendations aimed at improved grants accounting, improved budget monitoring, and increased proficiency in accounting and FUNDS\$ will require concerted action from a number of departments and individuals.

The City Manager's reports to Council can be expected to provide more specific information about the cost of completing the work begun on correcting the conditions noted in our audits.

CONTACT PERSON

Ann-Marie Hogan, City Auditor, 981-6750

Attachment:

- 1: List of Audits With Outstanding Recommendations as of January 16, 2007

Open Audit Status Report
As of
December 31, 2006

	Audit Title	First Council Report Date	Return to Council Date
1	Audit of the Association of Sports Field Users	May 23, 2006	July 17, 2007
2	Senior and Disabled Home Rehabilitation Loan Program	May 23, 2006	September 18, 2007
3	Follow-up Cash Receipts/Cash Handling Audit	May 16, 2006	May 22, 2007
4	Limited Tuolumne Camp Staff Review	March 7, 2006	June 26, 2007
5	Parcel Based Special Taxes, Fees, and Assessments Audit	March 15, 2005	July 17, 2007
6	Purchase Order Audit – Select Public Works Division at the Corporation Yard	March 15, 2005	December 4, 2007
7	Citywide Contract Compliance Audit	May 18, 2004	December 4, 2007
8	FUND\$ Change Management Audit	May 4, 2004	April 24, 2007
9	Accounts Payable Audit	December 16, 2003	April 24, 2007
10	Information Systems General Controls Audit	September 16, 2003	April 24, 2007
11	Customer Service Cash Receipts/Cash Handling	April 8, 2003	May 22, 2007
12	Cash Receipts/Cash Handling Audit – Parks Recreation and Waterfront	September 17, 2002	May 22, 2007
13	Cash Receipts/Cash Handling Audit - Treasury	September 17, 2002	May 22, 2007
14	Police Staffing	April 30, 2002	May 2008
15	Business License Tax Audit Report for Year Ending June 30, 1999	April 11, 2000	May 22, 2007
16	Departmental Budget Monitoring Audit	November 23, 1999	April 24, 2007
17	Safety Members Pension Fund for the Year Ended June 30, 1998	April 20, 1999	April 24, 2007
18	Public Works Grants Audit	September 16, 1997	April 24, 2007
19	Review of Residential Rental Inspection Program	March 11, 1997	June 26, 2007