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City of Berkeley



City Auditor's Office
Martin Luther King Jr.
Civic Center Building
2180 Milvia Street
Berkeley, California 94704

TEL: (510) 644 6440
FAX: (510) 644 6435

E-MAIL: hogan@ci.berkeley.ca.us

CONSENT CALENDAR
January 6, 1998

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor *amh*

Subject: Public Works Grants Audit

RECOMMENDATION:

That Council request the City Manager report to Council by May 5, 1998, regarding progress made on bringing grants billings current and implementation of the attached recommendations. This report should include specific information regarding whether the billable costs for the ISTEPA 3 grant, which totaled \$1,978,924 on July 15, 1997, have yet been billed.

BACKGROUND:

The City's management, the City Auditor, and the City's external auditors have expressed serious concerns regarding the lack of timeliness of City grants billing. Public Works does not have formal billing procedures. Although Public Works management has identified Public Works administrative staff as having lead responsibility for billings, billings are not timely prepared.

Implementation of Recommendations by Public Works

While Public Works agrees to implement the attached recommendations, there was a difference of opinion regarding the degree of responsibility Public Works Engineering/Project Management should take for billing. The Auditor accepts that it is definitely the prerogative of Public Works to assign lead responsibility to their administrative staff, rather than to Engineering as we had suggested, so long as the bills are prepared timely. However, as the report states, it appeared to us that some Public Works project managers were not particularly concerned with the financial management aspects of their work, or aware of the overall effect of untimely billing on City finances. While responsibility for billing is assigned to Public Works Administration, it is essential that project managers



routinely communicate project billing status information to the administrative staff. One aspect of the communications problem we perceived could be the difficulty project managers are experiencing with respect to the City's FUNDS\$ accounting information system. We believe that it is important for management level people to have adequate knowledge about the information system, if only to articulate system shortcomings and press for improvement.

Implementation issues regarding other departments:

Finance: According to the audit, contributing factors to this situation include the need for updated procedures: City Administrative Regulation 4.1 "Grant Application Review Procedures" is obsolete and there are no procedures which clearly identify how City revenue contracts should be processed. Recommendations for the Finance Department to address the update of procedures are included in the report.

Information Systems: The Public Works Department notes another contributing factor to untimely billing in their response. They state that Project Managers in Engineering cite problems with accessing and interpreting the budget and expenditure information in FUNDS\$, the City's computerized financial system.

Though this issue was not raised in time to be explored in the audit itself, it is clear that Public Works Engineering and Administrative staff will need to work with Information Systems and with the active users of FUNDS\$ management reports in other departments in order to report those problems which may be corrected by the software vendor, as well as to ensure that end users are properly trained. Implementation of the agreed upon recommendation that Public Works perform review and reconciliation of FUNDS\$ reports could greatly enhance the Department's ability to effect changes to the system.

General Fund Advances: Substantial amounts are advanced from the general fund each year to support grant funded activities until sponsor reimbursements are received. These amounts are reimbursed after the department has billed the granting agency and the reimbursements have been received. The cost to the General Fund for untimely billings is a Citywide cost, and has no repercussions for the responsible Department. The result, as stated in finding one, is that there is a lack of "sense of urgency" to obtain funding reimbursement.

FINANCIAL IMPLICATIONS:

At March 31, 1997, Public Works had an estimated \$4,525,974 in outstanding "receivables". As of September 16, 1997, two Caltrans grants, included in the March 31, estimated balance, amounting to \$2,252,465 had not been billed. Untimely billing of these grants results in a significant loss of cash flow and interest income to the City. We estimated that interest forgone as a result of not billing the two Caltrans grants was \$133,880 for one year using a conservative interest rate of 5.3 percent. The lost interest increases every day that grantors are not billed.

In response to the audit, on December 15, 1997, Public Works stated that one of the two Caltrans grants was billed and funds were received on November 7, 1997. Public Works stated that they have summarized all the billing information for the second Caltrans grant and were in negotiations with Caltrans on the final billing. Public Works estimates that this billing will go out within the next two weeks.

CONTACT PERSON:

Ann-Marie Hogan, City Auditor, 644-6440

Approved by:

Ann-Marie Hogan

Ann-Marie Hogan, City Auditor

