

# City of Berkeley



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## CONSENT CALENDAR

December 10, 1996

To: Honorable Mayor and  
 Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: EXAMINATION OF DEPARTMENT DIRECTOR TRANSITION PROCEDURES

### RECOMMENDATION:

That Council request the City Manager to report on implementation of the recommendations noted in the Examination of Department Director Transition Procedures report by February 25, 1997.

### BACKGROUND:

The Auditor's Office performed an examination of Department Director transition procedures. The objectives of this examination were to determine whether proper transition procedures were performed regarding the transition to a new (or acting) Department Director; to determine, in the event of the departure of a Department Director, whether proper separation procedures were performed, and to ascertain whether there are proper procedures in place to safeguard those City of Berkeley assets held in the custody of Department Directors.

It was noted that proper procedures were not performed because proper procedures have not been formally established.

While the purpose of this examination was to review the City's procedures regarding transition of Department Directors, changes for improved internal control procedures are recommended for all employees who have access to City assets and to the City's computerized accounting systems.

As noted in the response from the Personnel Department, included in this report, the City Manager's report on implementation of these recommendations should also include documentation from Information Systems regarding their implementation of improved control over computer access.



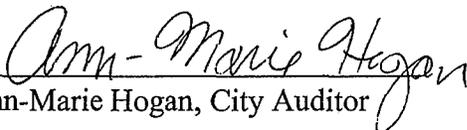
FINANCIAL IMPLICATIONS:

The City of Berkeley has an annual budget of \$200,512,197. Inadequate documentation of controls over computer access and authorization regarding liquid assets creates risk regarding the reliability of accounting for these funds.

CONTACT PERSON:

Ann-Marie Hogan, City Auditor, Office of the City Auditor, 644-6440.

Approved by:

  
Ann-Marie Hogan, City Auditor

Ann-Marie Hogan  
City Auditor

DATE: September 11, 1996

TO: Honorable Mayor and  
Members of the City Council

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

SUBJECT: **EXAMINATION OF DEPARTMENT DIRECTOR TRANSITION  
PROCEDURES**

Purpose: The objectives of this examination were to determine whether proper transition procedures were performed regarding the transition to a new (or acting) Department Director; to determine, in the event of the departure of a Department Director, whether proper separation procedures were performed; and to ascertain if there are proper procedures in place to safeguard those City of Berkeley assets held in the custody of departments. This examination was performed in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the U.S.

Scope: To test these objectives, we judgmentally selected the recent departure of the former Acting Director of Finance. This was the first examination of this kind that we have conducted and is pursuant to a program that we have established for all future Department Director Transitions.

Methodology: As part of our examination we spoke to Nicki Spillane, Deputy Director of Personnel, Nelvia Davis, Supervising Accounting Office Assistant in Management Administrative Services, and Chris Mead, Information Systems Manager. We reviewed the City of Berkeley's Administrative Regulations and various supporting documentation provided by the City, including expense reports and memoranda.

## FINDINGS AND RECOMMENDATIONS

Summary: The purpose of this examination was to determine whether proper transition procedures were performed regarding the transition to a new (or acting) Department Director, to determine, in the event of the departure of a Department

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Director, whether proper separation procedures were performed, and to ascertain whether there are proper procedures in place to safeguard those City of Berkeley assets held in the custody of Department Directors.

As we performed our examination, it was noted that proper procedures were not performed because proper procedures have not been formally established. There are no documented policies or procedures governing the departure or arrival of City of Berkeley Department Directors. Even the informal guidelines issued by the former Acting City Manager, which require an inventory of assets in the custody of Department Directors, are not being followed. Additionally, we noted that information residing in the City of Berkeley's computer system, including access to the City's bank accounts, is not being safeguarded by the use of an adequate control over access to the computer system.

Lack of controls over the safeguarding of City of Berkeley assets was not limited to Department Directors, but applied to assets held by all City of Berkeley employees. We noted that system access by former employees is not being removed, and authorization is not being adequately monitored nor maintained. Therefore, it is recommended that the City develop and implement formal policies and procedures to properly safeguard its assets.

This examination was not a full scope audit. The findings identified in this report were items identified based on the limited scope of our examination, which related to Department Directors.

### **Finding 1**

#### **City Property Checklist Not Completed**

*Condition:* During our examination, we reviewed the Administrative Regulations (AR) manual and noted that there was no AR addressing Department Director transitions. We also noted that on May 8, 1994, the former Acting City Manager, Weldon Rucker, distributed a memorandum establishing the City Property Checklist. The memorandum instructed each department to complete this property checklist for all new hires and terminating employees who are given any City property, including employee ID cards, building access cards, and computer access codes.

This City Property Checklist is a tool designed to assist in the process of safeguarding City of Berkeley assets. However, City Property Checklists are not being completed by departments on a regular basis, making the intended safeguard ineffective. The checklist must be completed at the time when the access and custody are given, as well as at the time when access and custody are removed. If the information is not captured when the employee first acquires the assets, then the control will not be effective. This lack of inventory control could enable employees to abscond with City property.

Please note that the City Property Checklist is currently being updated by the Personnel

Department. During our examination, we noted that the checklist should be updated to include additional assets such as cellular phones, pagers, automobiles, computer hardware, etc. The checklist should also include an item issued date and an item returned date, as well as an employee's signature line.

*Recommendation:* We recommend that the Personnel Department complete the update of the City Property Checklist and submit the updated City Property Checklist to the City Manager's Office for review and approval. We also recommend that the City Manager instruct Department Directors to maintain completed City Property Checklist for every employee in their department. These checklists should be initiated at the time the access and custody of assets are given. It should be completed when access and custody are removed. These checklists should be properly organized, current, and should be made available for periodic auditor review. When an employee's relationship with the City terminates, the employee's supervisor should formally request that the outgoing employee return all keys, building entry permits/passes, identification badges, etcetera, initially issued to him or her. The City Property Checklist should be completed identifying items returned. Missing items should be documented with a brief explanation. Determination as to whether employees should reimburse the City for the missing items should be made. If reimbursement is not made, an explanation should accompany the City Property Checklist. We recommend that this checklist procedure ultimately be the responsibility of the Department Directors.

## **Finding 2**

### **Lack of Procedures for the Appointment and Departure of Department Directors**

*Condition:* During our examination, it was noted that there were no documented procedures relating to the appointment of Department Directors nor to the departure of Department Directors. There are no City guidelines to ensure that former Department Directors cease to have access to the department's assets, to ensure that equipment used by the former Department Director has been returned to the department, or to ensure that resignation procedures are completed. Even though there is a memo requiring that a property checklist be filled out by incoming and outgoing City employees, this would not be sufficient for Department Directors even if it were being enforced, due to the greater responsibility and controls over assets that can be liquidated (access to wire transfers). Department Directors need a more formal process commensurate with their level of authority and their access to assets.

*Recommendation:* We recommend that the City establish formal guidelines for Department Directors to ensure that former Department Directors no longer have access to the department's assets, to ensure that equipment used by the former Department Director has been returned and accounted for, and to ensure that resignation procedures are completed, including a formal exit conference.

## **Finding 3**

### **Lack of Procedures for Signatory Authority Establishment and Removal**

*Condition:* There is no formal procedure for the establishment of and removal of signatory

authority. Several departments within the City, such as the Auditor's Office, Purchasing Department, Finance Department, and Information Systems, require signatory authority of Department Directors and/or assigned personnel in order to approve payroll changes, contract payments, purchase orders, and system access. In addition, various Department Directors and/or assigned personnel have access to and have the ability to authorize bank wire transfers. Even though the Deputy Director of Finance ordered the removal of the former Acting Director of Finance as an authorized signer on all City of Berkeley's bank accounts, departments within the City were not formally notified that his authorization ability was terminated. We also noted that delegated payment holder signature cards and authorized signers list for various departments within the City were obsolete, making them useless.

*Recommendation:* Signatory authority of Department Directors and/or designated employees should be established, approved in writing in a timely manner, submitted to the appropriate departments, and updated regularly. Removal of signatory authority should also be approved, documented in writing in a timely manner, submitted to the appropriate departments, and updated regularly. This applies both to applicable City departments and to commercial institutions. Department Directors should not authorize their own signatory authority. There should be formal guidelines established identifying who will authorize a Department Director's expenditures, access to assets, and authorization ability.

#### **Finding 4**

##### **Lack of Adequate Security over Computer System Access**

There is currently no efficient way by which Information Systems may determine who has been granted what level of access and by whom or when the access was granted. Although data access is identified and authorized in writing, evidence of this authorization is not maintained in a manner that would allow Information Systems to extract useful information. Lack of an audit trail renders this potential control ineffective. Forms used to initiate system access are not filed alphabetically, by department, or by any means which would allow effective retrieval.

Although access to computerized information is initiated on a need to know, need to do basis, once the need has been fulfilled, the access is not removed in a timely manner. Access controls are not adequately reviewed. Past system users (former employees) are still listed as current authorized users. The removal of an employee from the system is not authorized in writing nor is it automatic. There is no effective procedure in place which guarantees the removal of former employees from the system. The Information Systems Manager stated that the Menu Driver program scheduled for implementation on November 25, 1996, has the ability to eliminate this problem on the existing AS/400.

*Recommendation:* The FUNDS oversight committee should develop and document formal rules and guidelines to authorize a process for allowing system access to individuals. Reconciliations should be made (at a minimum) annually between a list of current employees by department and the individuals authorized to have access into the system by department. This way, when individuals move to a different department, if their system access for that department was not

properly removed, it will be captured in this reconciliation. In addition, if former employees were not properly removed from the system after their departure, it will also be captured in this reconciliation.

*Personnel Department's Response:*

We have reviewed the Auditor's report regarding an examination of the City's separation procedures for departing Department Directors and concur with the findings and recommendations. It is apparent that the City departments require a more formalized new hire and exit process for all career employees which incorporates the City property Checklist which had been distributed earlier. We had recognized this need, as well, and had already assigned the task of preparing an Administrative Regulation to a Personnel Department staff member.

However, we will ensure that this project is given priority and developed in such a way as to address all of the concerns raised by the Auditor's findings. This will entail working with the appropriate Information Systems staff to develop procedures necessary to safeguard computer systems access, as well. We are projecting completion of the draft Administrative Regulation by December 20, 1996.

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