



Office of the City Auditor

INFORMATION CALENDAR

June 22, 2004

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: FISCAL YEAR 2005 AUDIT PLAN

INTRODUCTION

Article X, section 61 of the Berkeley City Charter requires that the City Auditor provide the City Council with a planned audit schedule by the beginning of each fiscal year. The Charter also states that the Auditor shall consult with the Mayor, City Council, and City Manager regarding the selection of audit entities but that the final decision of what to audit shall remain with the Auditor. This is a summary of our fiscal year 2005 audit plan.

SUMMARY

Completion of the following audits that are currently in progress:

- Audit of internal controls over purchasing and payables in Public Works.
- Audit of internal controls over billings of the City's parcel-based assessments and taxes.
- Survey of Parking Enforcement Officers.
- Medi-Cal billing and reimbursement; State budget cuts impact on Health and Human Services Department (non-audit consulting project).

Included in the City Auditor's fiscal year 2004 Audit Plan was an audit of change orders for construction contracts. This audit has been removed from the audit plan based on our discussions with Council and the City Manager regarding audit priorities.

New audits for fiscal year 2005:

- Survey of performance measures in City departments
- Parking tickets
- Audit of City loan programs.
- Audit to identify costs of City services (including overtime and lost time analysis).
- Potential financial impacts of proposed Berkeley Fire Department consolidation with the County.

- Follow-up on past due audit responses and recommendations from previous audits.
- Continuous Business License tax revenue audits of taxpayers.
- Continuous monitoring of safeguards over City resources.
- A limited review of safety and workers' compensation issues, as well as a limited review of relevant performance measures, will be included in all audits.

### BACKGROUND

Priorities for audit work were identified by assessing risk and cost-benefit of possible findings and recommendations, and addressing needs for development of information required by decision makers in order to take action. Planning meetings with the City Manager and staff and the Council Ad Hoc Audit Advisory Committee were a key part of developing the audit plan.

The potential impact of budget reductions on City services and activities was a significant factor in prioritizing ideas for the audit plan. In any organization, when cuts are implemented in support and management control services, there is a heightened risk that internal controls will weaken significantly. Because of this, we continue to focus on areas where internal controls are a concern or can be expected to deteriorate under the pressure of budget constraints.

We also planned our audits to effectively utilize computerized audit tools. The audit software, Audit Command Language (ACL), should improve our ability to detect internal control weaknesses, as well as generate additional revenue for the City.

### FISCAL IMPACTS OF RECOMMENDATION

Business License revenue from compliance audits is projected to be \$125,000 annually per FTE assigned. Currently, one auditor is assigned to this area. Funding for one entry-level auditor was eliminated from the 2003 budget, and funding for a second entry-level auditor will be eliminated in 2005 via an increase in target salary savings. These auditors were assigned full time to Business License tax compliance and revenue-generation. However, the auditors have determined that the revenue generation, cost avoidance, and risk avoidance impact of the audits on this plan appear to be of greater benefit than the target \$125,000 per FTE. Currently, an entry-level auditor is on loan to Finance in a project based position. Should this position end during the coming fiscal year, the auditor will be assigned to specific revenue-generating audits.

### CONTACT PERSON

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Approved:

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