



Office of the City Auditor

WORKSESSION  
October 30, 2012

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Auditor  
Subject: City Auditor's Annual Report Discussion

### INTRODUCTION

In 2012, the City Auditor's Office once again succeeded in our mission to improve performance of City operations, save money, promote transparency and accountability, and deter fraud. The City Manager and staff helped achieve this by agreeing to implement all of our recommendations.

On October 2, 2012, based on our annual report, Council directed the City Manager to:

1. Make timely implementation of audit recommendations a high priority, particularly the recommendations regarding fraud prevention, such as the 1998 grants audit and the 2011 adjusting journal entries audit. These recommendations aim to increase the Finance Department's oversight of practices in the departments.
2. Disclose internal control risks of recommended budget cuts in future budget reports.

Tonight, I'd like to talk to Council about how each of you can help make sure these actions are successful.

### **Budget Reports to Council: Analyzing Internal Control Risks**

Council can discharge your responsibility to ensure that future budget cuts do not create unacceptable risks by asking the City Manager questions like these about specific proposed reductions before voting on future budgets:

- Are we increasing the risk of fraud by making this budget cut?
- Will this budget cut hamper our ability to provide the best and most timely information we need for decision-making?
- Does this budget cut impact our ability to provide oversight of grants, community agencies, vendors, and staff performance?

**Timely Implementation of Audit Recommendations**

Council can ask the same three questions about audit action delays. Appendix A in the attached report classifies the nature of the risk or missed opportunity for each unresolved audit.

**Audits Improve City Services and Protect City Resources**

Our audit recommendations improve performance of City operations, save money, promote transparency and accountability, and reduce risk.

According to Governing Institute Director Mark Funkhouser, policymakers at every level of government ought to limit further cuts in audit and evaluation. Mr. Funkhouser, former Mayor and City Auditor of Kansas City, writes that "Cutting back in those areas to save money is like trying to lose weight by shrinking your brain."

I thank the City Manager and Council for approving all of our 2012 recommendations, and for implementing 71 of the 125 recommendations previously outstanding.

Of particular note are the changes made in response to our audit [Employee Benefits: Tough Decisions Ahead](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/2010-11-16_Item_13_Employee_Benefits_Tough_Decisions_Ahead-Auditor(1).pdf) ([http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/2010-11-16\\_Item\\_13\\_Employee\\_Benefits\\_Tough\\_Decisions\\_Ahead-Auditor\(1\).pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/2010-11-16_Item_13_Employee_Benefits_Tough_Decisions_Ahead-Auditor(1).pdf)). The September 11, 2012 [Council report on the Berkeley Police Association Memorandum of Understanding](http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/City_Council/2012/09Sep/Documents/2012-09-11%20Item%2016%20Memorandum%20of%20Understanding.pdf) ([http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/City\\_Council/2012/09Sep/Documents/2012-09-11%20Item%2016%20Memorandum%20of%20Understanding.pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/City_Council/2012/09Sep/Documents/2012-09-11%20Item%2016%20Memorandum%20of%20Understanding.pdf)) provides important information about employee compensation changes that were negotiated, in more detail than in the past. This is in keeping with audit recommendations for increased transparency. The settlement had economic impact, and addressed the open-ended nature of one of the benefits, reducing future risk. The increased transparency and reduction of future risk are a step in the right direction.

**POSSIBLE FUTURE ACTION**

A strong performance audit function provides the City with insight, oversight, and foresight. Increasingly, our audits are emphasizing foresight – looking ahead.

- Our Employee Benefits audit provided Council with tools for long range decision-making and public communication.
- Our [Streets](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/Streets%20Audit%20Report_Final(2).pdf) ([http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/Streets%20Audit%20Report\\_Final\(2\).pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/Streets%20Audit%20Report_Final(2).pdf)) audit is helping Council to plan for the long term health of our infrastructure.
- Next year, our audit plan includes analyzing the affects of future state and federal budget problems on the City of Berkeley.

The auditors will continue to help the City Council and all City stakeholders to take the long view, armed with the knowledge needed for the challenges ahead.

### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

We estimate that implementing the recommendations in the audits we issued in fiscal year 2012 could result in cost avoidance (Streets) and revenue recovery (Business License Tax) of \$39 million over five years.

The action Council takes to ensure timely action on all audits should result in additional savings and risk reduction, including fraud risk. Reducing fraud risk does more than save money; it helps build trust in government. Maintaining a strong audit function and prudent fiscal and program management will reduce future costs and enhance public trust.

### CONTACT PERSON

Ann-Marie Hogan, City Auditor City Auditor's Office, 981-6750

### Attachments

1: City Auditor's Annual Report for Fiscal Year 2012 (revised)

(Note: this report was presented to Council on October 2, 2012. At Council's request, we clarified that *"The Department of Public Works currently uses StreetSaver® when planning the Five-Year Streets Plan."* We also added the following language to the annual report, aimed at more fully reflecting the findings of the [Streets](#) audit: *"We recommended they expand its current use to develop data-driven funding strategies for Council to use in establishing a specific pavement condition index goal and timeline."*