



Office of the City Auditor

INFORMATION CALENDAR
February 19, 2013

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

INTRODUCTION

The Budget Manager has asked most of the department directors who report to the City Manager, and also the City Auditor, to reduce General Fund expenses by 2 percent in the 2014 and 2015 budgets. Since this is less than a full staff position, my office may provide temporary assistance from nonaudit (payroll and administrative) staff to various City departments, as we did in 2010 and 2011. This report discloses potential impacts of the reduction in resources and includes citywide concerns about budget cuts.

CURRENT SITUATION AND ITS EFFECTS

As several Councilmembers mentioned at the January 22 budget workshop, “across the board” budget cutting is not considered a best practice, though it is a very common practice. The City Auditor’s Office is particularly concerned that public pressure to save direct services and to cut administrative or oversight functions can increase the risk of fraud and of poor service delivery.

Although the request was for permanent cuts, I am recommending that the City Auditor’s Office reductions be in place only for the upcoming two-year budget cycle.

BACKGROUND

Over the last five years, the City Manager has requested annual across-the-board budget cuts ranging from 2 to 5 percent of the General Fund for most departments. The City Auditor has made a number of presentations and recommendations to Council regarding the risks of cutting oversight and support services.

On October 2, 2012, as recommended in the Auditor’s Office annual report, Council directed the City Manager to disclose internal control risks of recommended budget cuts in future budget reports. Questions that the City Manager should incorporate into the departmental budget submissions and that Council could ask of the City Manager were developed by the City Manager and the City Auditor and discussed with Council on October 30, 2012:

- Council can discharge your responsibility to ensure that future budget cuts do not create unacceptable risks by asking questions like these before voting on the budget:
- 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?

The Budget Manager's preliminary budget instructions to departments requested that these questions be answered. In response, our proposed budget reduction will:

- Increase the risk of payroll fraud and diminish fraud prevention activities.
- Reduce our ability to provide analytical and performance reports for the City Manager and departments needed for timely decision making.
- Diminish our ability to provide oversight of grants, community agencies, vendors, and staff performance.

The auditors have not reviewed answers to these questions by other departments; presumably there will be similar impacts. Although a 2 percent reduction may not seem significant, these reductions have been cumulative reductions, year after year.

Our previous Council reports explain that when "across-the-board" cuts are applied to direct services, the impact on service is visible in delayed response or shorter service hours. When cutting oversight and support functions, the City takes on a great risk because the impact is less visible at first. In addition, budget cuts in operating departments may actually increase the need for oversight and support services. For this reason, oversight services, whether centralized or in the operating departments, should not be requested to take across-the-board reductions. We recognize the difficulty of moving the City to a more strategic approach.

POSSIBLE FUTURE ACTION

Some cities have used "budgeting for outcomes," "budgeting for results," and similar approaches. These approaches often involve developing a process to determine the community's and the Council's service priorities, and developing a strategic plan and a robust performance measurement system. The cities then decide what services they can afford to offer and what assets they can afford to maintain, and build the administrative and oversight functions around the programmatic goals.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Unknown. The community buy-in, the legislative vision and support, and the resources needed to implement such a system could be more than the City is ready to take on in a time of diminishing resources. However, the risks associated with maintaining current budget practices are likely to be more costly over the long term.

CONTACT PERSON

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Attachments:

1: Letter from the Association of Local Government Auditors (ALGA)



Association of Local Government Auditors

January 2013

A Message to Local Government Leaders and Stakeholders From the Association of Local Government Auditors (ALGA)

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In times of limited resources, some local governments and special districts are tempted to reduce the budgets of their auditors. Effective audit functions require organizational independence, adherence to professional standards, sufficient funding, competent leadership, and, most importantly, your stakeholder support. We are writing to you in support of fully funding and supporting your in-house local government auditors.

Your auditor can help you fulfill your governance responsibilities for good stewardship of resources by actively identifying ways to:

- Increase cost savings and revenues
- Ensure your policies are implemented effectively
- Prevent fraud
- Make decisions based on solid data

Your Auditors Are a Wise Investment

Cost Savings and Revenues Enhancements

Auditors help identify opportunities for cost savings and revenue enhancement:

- Audits of overtime saved a small city in Texas \$350,000; a larger city saved more than \$2.8 million annually.
- A Tennessee city saved over a million dollars with an audit of employee health coverage; a Canadian city saved \$54 million.
- A large city in Texas identified over a million dollars in overcharges for TV franchise fees; a smaller city in California collected over two million dollars in underpaid business license taxes over ten years.
- Auditors recovered \$2.1 million from one concession contract.
- A small city found \$15,000 overcharged by one vendor, and \$30,000 by another; cities found office supply overcharges in the millions of dollars.

Policies and Implementation: Monitoring Program Performance

Auditors ensure that program performance is meeting the community objectives that underlie policy directives. Audit recommendations help improve service delivery as well as prevent future liabilities and costs:

- An audit of codes and inspections in a New York City found that inspections required by state and local law were not being performed.
- A Canadian city recently found that board-approved procurement and competitive policies were "routinely ignored".
- An audit of family investigations in Arizona addressed badly needed changes to case management.

Fraud prevention

Auditors play an important role in detecting fraud and recovering dollars. Even more importantly, auditors work to prevent fraud. They help protect your government's reputation for good stewardship through training, monitoring hotlines, and audit recommendations aimed at prevention.

The Data and the Facts You Need for Making Decisions

Auditors provide objective information for informed decision making.

- Performance audits of streets infrastructure and pensions helped two California local governments balance competing priorities, win voter approval for initiatives, and avoid future costs.

Avoiding the temptation to contract out for audit services

While some local governments opt to outsource all of their audit services, including performance audits, ALGA believes that there are many advantages to maintaining in-house audit staff including:

- Quicker response to requests
- Audit leaders who follow up to ensure changes are made
- Potential for lower costs per hour and for time savings due to familiarity with your operations, and
- Timely identification and deterrence of fraud, waste, and abuse.

If you do decide to outsource audits, your in house auditors are your assurance that those contracts will be appropriately scoped and rigorously monitored. Because contract management requires dedicated time and expertise, many governing boards charge their in-house auditor with the selection process and oversight of any audit contracts.

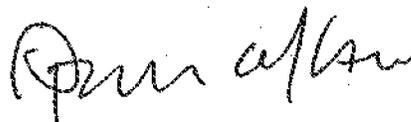
ALGA Helps Strengthen Your Existing Audit Function

The Association of Local Government Auditors (ALGA) is a professional organization committed to supporting and improving local government auditing.

We offer no-cost assistance for your audit function: publications such as Model Legislation and guidance for you on selecting an auditor, arrangement of peer reviews and, if requested, direct advice by phone, email, or possibly in person. You can learn more at our website at www.governmentauditors.org.

Please contact Advocacy Committee Chair Craig Kinton at craig.kinton@dallascityhall.com or 214-670-3222 if you would like additional information.

Sincerely,



Drummond Kahn, ALGA President