



Office of the City Auditor

PRESENTATION

June 10, 2003

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: CITY AUDITOR'S BUDGET DISCUSSION AND FY2004 AUDIT PLAN

In response to your request that I address Council on the subject of the budget, this presentation includes:

- Information about “what the Auditor does” and what we have accomplished
- Advocacy for effective internal controls, oversight, and administrative and technical support in order to deliver City services and information equitably and efficiently
- Discussion of the need for Council to maintain a realistic approach to the resources needed for support and oversight as pressures continue to mount over the next few years for a “magic bullet” to cut the budget without reducing front line services

The City Auditor's Office provides independent oversight of City operations; its mission is to be a catalyst for improving City government. Oversight and administrative functions are part of the City's internal control system, provided by the Auditor's Office and other “support and oversight” departments, as well as by staff in operating departments. Our audits attempt to provide answers to questions that Council and the City Manager need to answer in order to manage delivery of City services and allocate increasingly scarce City resources:

- Are we assigning sufficient resources to planning before taking action?
- Are we assigning sufficient, and appropriately qualified, resources to the task of monitoring and oversight of performance?
- Are we holding contractors and employees accountable for high quality results?
- Are we allocating sufficient and appropriately managed resources to assure good system design and technology support?
- Are the programs we are funding working effectively?

Our audits provide specific recommendations for strengthening the City's internal controls and improving the efficiency, effectiveness, and equity of City service delivery.

**Internal controls** are all of the policies, practices, systems, and procedures an organization uses to ensure protection of assets and accomplishment of objectives. They include not only checks and balances over computer access and cash handling, but also performance measurement systems, staff training, accurate accounting and reporting, adequate supervision and oversight, audits, and sufficient staffing.

### **Audit Accomplishments for Fiscal Year 2002 and 2003 to Date**

The value of performing audits lies in the successful implementation of the audit recommendations. The auditors have made progress in continuously improving the skills of the auditors, utilizing improved technology, and planning audits that result in recommendations with significant impact. Most importantly, we have seen measurable improvements in the timeliness and thoroughness with which City staff implements our audit recommendations. These improvements would not be possible without the strong support and active engagement of the City Manager and his staff, past and present members of the Council Ad-Hoc Audit Advisory Committee, and Department Directors.

- **Compliance/Revenue audits:** Business License audits, performed by entry level auditors, historically identify revenue at a rate significantly in excess of our costs. As of 5/31/03, we have identified over \$400,000 in one-time revenue this year. This is expected to result in significant future annual revenue as well, since unlicensed or under-reporting businesses are expected to continue to pay taxes in the future.
- **Internal Controls and Performance Audits:** A survey of all City cash handling locations, including in depth audits of several of the locations, resulted in changes to Citywide monitoring of cash assets. An audit of controls over City vehicles resulted in recommendations which may reduce costs to the City as well as ensure more effective vehicle monitoring. A report on opportunities to improve Police staffing has provided support for efforts to restructure Police services. Audits of Information Technology, contracts and procurement compliance with Council policy, internal controls to prevent purchasing fraud, and construction contract change orders are currently in progress.
- **Payroll Audit:** The Payroll Audit Division developed better reports for monitoring lost time due to sick leave and workers' compensation and worked on recommendations to reduce payroll system inefficiencies resulting from provisions in the employee bargaining agreements. Internal controls over confidentiality and security of payroll checks were enhanced with the help of new technology.
- **Implementation of Audit Recommendations:** We instituted an "outcome-based" performance measure aimed at achieving 40% implementation of all audit recommendations before the audit is published. Last year, the result was 60% implementation; so far this year, it is 55%.
- **Training and Task Force Support:** Many of the actions recommended in our audits require improvements to the City's financial systems as well as enhancement of employee skills. The City Auditor has partnered with Finance, Human Resources, Vista College, and the City Manager's office in a number of ongoing initiatives related to employee training, improved documentation, and developing a long term plan to identify needed steps to improve the City's financial software systems.

**Budgeting for Internal Controls, Oversight, and Other Support Services**

Because of continuing budget constraints, Council is under tremendous pressure not to cut direct services to the public. It is important to remember that the undervalued "back office/administrative functions" include vital protection of City assets as well as oversight of City performance.

*Direct services* are in competition with internal controls or indirect services when it comes to budget dollars. However, the quality of delivery of program services is directly impacted by the quality of internal controls, administrative support, and management oversight. A good internal control system will provide mechanisms and oversight to ensure that staff time is used effectively and efficiently, and that the program and service objectives are well planned, carefully evaluated, and modified based on results of the evaluation. Failure to plan, evaluate, and correct will ultimately result in reductions in service.

As Council weighs the priorities for how City resources are used over the next several years, it is important to be realistic about the resources needed to establish and maintain effective controls over City assets and City work.

Part of the significance of the internal control system is that Council needs a way to determine how resources are currently being used. As worsening budget problems move the City in the direction of "doing a few things well", Council will need to make decisions about continuing the most necessary and the most effective programs and services, and eliminating others. It will become increasingly important to determine which programs and services are being delivered effectively and efficiently, and which are not.

The auditors hope to support these efforts by furnishing the kind of information that will be helpful in making these decisions, through our Audit Plan for the next fiscal year (attachment I). We will also be providing technical assistance and support to ongoing City Manager initiatives aimed at improving internal controls and performance reporting.

Additional examples of the significance of internal control issues in a time of budgetary constraints are included in the attached informational item, shared with Council in early April, as part of ongoing discussions in the development of the City Manager's proposed budget (attachment II). I ask that Council keep these issues in mind over the next few years as you continue to grapple with competing demands for City resources.

**CONTACT PERSON**

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