



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
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Staff Report
 September 9, 2008

**Honorable Mayor and
 Members of the City Council**

Title: Request for Authorization for 2.00 Additional Staff Internal Auditor FTEs in the City Manager's Office. Funding for the FTEs to begin in Midyear 2008/2009.

Location/Council District: City-wide

Recommendation: Adopt a Resolution authorizing the addition of 2.00 Staff Internal Auditor FTEs to the City Manager's Office. Funding for the FTEs to begin at Midyear 2008/2009. The new FTEs will be funded through reimbursements to the City Manager's Office from the existing budget of the Department(s) being audited.

Contact: Martin Kolkin, City Auditor, 916-808-5704

Presenters: Martin Kolkin

Department: City Manager's Office

Division: Internal Audit

Organization No: 09200

Description/Analysis

Issue: During the June 24, 2008 presentation of the Department of Utilities' Internal Audit Reports, the Mayor and City Council expressed interest in increasing municipal accountability through performance auditing. Additionally, the Mayor and City Council requested cost efficiency and budgetary impact of additional internal auditors.

Policy Considerations: Additional Staff Internal Auditor full time equivalent positions ("FTE") are consistent with the City of Sacramento's core values of accountability and fiscal responsibility.

Environmental Considerations: This activity does not constitute a "project" and is therefore exempt from the California Environmental Quality Act (CEQA), CEQA Guidelines Sections 15061(b) and 15378(b)(3).

Rationale for Recommendation: Additional internal auditors will increase the capacity of the Internal Audit Division to produce more timely and a greater number of internal reviews. It will also assist in meeting the Mayor and City Council's goal of increasing accountability and fiscal responsibility.

Internal audit provides a cost-efficient method of assuring transparency, accountability and fairness. The City Auditor estimates that for every \$1 spent on Internal Audit, at least \$2 of cost efficiencies will be identified.

Financial Considerations: No additional financial considerations. The new Staff Auditor FTEs will be funded through reimbursements to the City Manager's Office from the existing budget of the Department(s) being audited. The \$125,000 budget needed to fund the 2.00 FTE Staff Auditor positions for half of FY 2008/2009 will also be funded through reimbursements to the City Manager's Office from the existing budget of the Department(s) being audited.

Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this agreement.

Respectfully Submitted by:



Martin Kolkin, City Auditor

Recommendation Approved:



for Ray Kerridge
City Manager

Table of Contents:

Staff Report	pg. 1
Attachment – Background	pg. 3
Resolution	pg. 5

Attachment

Background:

History

The City Auditor's position was established with Resolution Number 2002-94. The Resolution authorized "the City Manager to establish and recruit for a City Auditor." The City Auditor was hired and began work on March 24, 2003.

A staff report to the Mayor and City Council, dated June 8, 2006, recommended increasing Internal Auditors FTEs over a three year period from a single Auditor to seven Auditors. A second Auditor was added to the Division in Fiscal 2007. However, due to budgetary constraints, no further FTE increases were proposed.

During the June 24, 2008, presentation of the Department of Utilities' Internal Audit Reports, the Mayor and City Council expressed interest in increasing municipal accountability through performance auditing. The Mayor and City Council also requested cost efficiency information and budgetary impact of additional Internal Auditors.

Cost Efficiency

The value of Internal Audit can be "dollarized" or measured in numerous ways. A common method defines audit cost efficiencies as the dollar value of questioned costs, cost avoidances, identified funds at risk, located waste, and increased efficiencies.

Terms Defined:

Questioned Costs – Imprudently spent funds.

Cost Avoidance – Dollars that will not be spent.

Identified Funds at Risk – Potentially misappropriated assets due to poor controls.

Located Waste – Funds that were spent in an inefficient manner.

Increased Efficiencies – Obtaining a better value for dollars spent.

Funding

Funding for the new auditors will come out of the existing budget of the Departments being audited. Departments will be advised of not to exceed cost for each audit. This cost will be based upon the estimated hours to complete for each project, as noted in the approved Annual Audit Workplan. An increased audit scope or additional audit fieldwork will be funded with the City Manager's authorization and the Mayor and City Council's approval.

The City Auditor believes that for every \$1 spent on Internal Audit, at least \$2 of cost efficiencies will be identified. At the completion of every audit, the City Auditor will include a comparison of expenses to cost efficiencies.

To illustrate this point, the On-Street Parking Internal Audit, dated January 26, 2004, will be used as an example.

The following cost efficiencies were identified:

Identified Funds at Risk – Annual Cash Receipts	\$3,500,000
Increased Efficiencies of filling 7 vacant Parking Enforcement Officer Positions and increasing use of the “boot”	\$ 250,000
Total Identified Efficiencies	\$3,750,000
Auditor Costs Including Benefits for the 6 month audit	\$ 80,000
Cost Benefit Ratio of Auditor Costs to Identified Efficiencies	\$47 to \$1

As a result, \$47 of efficiencies was identified for every \$1 of Auditor costs incurred. But more importantly, a Division with poor internal controls transformed into a model of strong managerial oversight with well designed and functioning internal controls.

Future Audit Funding

Future audits could continue to be funded from the Departments that receive the direct benefit of the performance audit or a percentage of auditor identified cost efficiencies could be earmarked for future audit operations.

RESOLUTION NO.

Adopted by the Sacramento City Council

September 9, 2008

**Add 2.00 Internal Staff Auditor FTEs in the City Manager's Office,
at Midyear 2008/2009, to be funded by the Department(s) being examined**

BACKGROUND

- A. The City Auditor's position was established on March 24, 2003. In FY 2007 an additional Auditor was added to the Internal Audit Division.
- B. On June 24, 2008, the Mayor and City Council expressed interest in increasing municipal accountability through additional performance auditing.
- C. The City Auditor believes that for every \$1 spent on Internal Audit, at least \$2 of cost efficiencies can be located.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY
COUNCIL RESOLVES AS FOLLOWS:**

Section 1. In order to promote increased municipal accountability, the addition of 2.00 Staff Internal Auditor FTEs to the City Manager's Office is immediately authorized. Funding for the FTEs will begin at Midyear 2008/2009, at a cost not to exceed \$125,000 for the remaining fiscal year.

The new FTEs will be funded in FY 2008/2009 and future years through reimbursements to the City Manager's Office from the existing budget of the Department(s) being audited.