



REPORT TO COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2604
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Staff Report
February 17, 2009

Honorable Mayor and
Members of the City Council

Title: The Annual Internal Audit Workplan for Calendar Year 2009

Location/Council District: City-wide

Recommendation: Adopt a Resolution 1) Approving the Annual Internal Audit Workplan for Calendar Year ("CY") 2009 and 2) Changing the source of funding for the Staff Auditor Full Time Equivalents ("FTEs").

Contact: Marty Kolkin, City Auditor, 808-5704

Presenters: Marty Kolkin, City Auditor, 808-5704

Department: City Manager

Division: Internal Audit

Organization No: 02001011

Description/Analysis

Issue: This report sets forth the City Auditor's proposed Annual Internal Audit Workplan for Calendar Year ("CY") 2009. The proposed CY 2009 Workplan reflects an increase of two additional Staff Auditor FTEs authorized by Resolution 2008-620, dated September 9, 2008.

The number and scope of audits performed during the year are directly impacted by the number of auditors. As a result, the City Auditor anticipates completing two additional audits during CY 2009 with the two new Staff Auditor FTE's expected to be added in April 2009. The City Auditor anticipates filling the two new FTE's with an Auditor with financial audit experience and an Auditor with operational auditing experience.

Policy Considerations: The City Auditor's presentation of the Annual Internal Audit Workplan is consistent with the Mayor and City Council's intent to have an internal audit function for the City of Sacramento.

Environmental Considerations:

California Environmental Quality Act (CEQA): Under the California Environmental Quality Act (CEQA) guidelines, this Workplan do not constitute a project and is therefore exempt from review.

Sustainability Considerations: Provide catalyst for improvements of municipal operations.

Other: Not Applicable.

Commission/Committee Action: None.

Rationale for Recommendation: This staff report provides the Mayor and City Council with an opportunity to accept the proposed Workplan or to provide comments and feedback for modification of scheduled internal audits for CY 2009.

Financial Considerations: In FY 2008/2009, the Risk Fund will be charged for up to three months of costs associated with the two new Staff Auditor FTEs, not to exceed ("NTE") \$63,000.

In FY 2010, the Risk Fund will be charged for expenses associated with three Staff Auditor FTEs, at a cost NTE \$375,000. This change will be implemented as part of the FY 2009/2010 budget development process.

Previously, the budget for Staff Auditor FTEs was to be funded by the Department(s) being audited. However, significant funding reductions are expected for Departments throughout the City in FY 2009/2010 and future years. It appears more appropriate to establish a funding mechanism which is paid for by all Funds that receive the benefit of an examination during a multi-year audit cycle. It is the City Manager's goal to have all operating Departments audited on a five-year audit cycle.

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:


Ray Kerridge
City Manager

Table of Contents:

Report	pg. 1
Attachments	
1 Background	pg. 4
2 Proposed Internal Audit Workplan for Calendar Year 2009	pg. 5
3 Resolution	pg. 6

Attachment 1

Background Information: The City Auditor functions as an objective evaluator of the effectiveness of all City activities, services and programs, ensuring compliance with organizational policies and procedures, state statutes, and federal regulations. The City Auditor reports to the City Manager, with access to the Mayor and City Council.

The City Auditor maintains organizational and operational independence from all other departments within the City. The results of all completed audits are required to be formally presented to the City Manager and the Mayor and City Council.

Procedures: The City Manager's internal operating practices require the submission of an Annual Internal Audit Workplan for the Mayor and City Council's approval. The Annual Workplan contains the planned projects to be completed during the calendar year. Significant audit fieldwork cannot proceed without the authorization of the City Manager and the approval of a majority of the City Council.

Responsibility: The City Auditor is responsible for preparing the Annual Internal Audit Workplan for review and authorization by the City Manager and subsequent submission to the Mayor and City Council for approval.

Work Process: The approval of the Annual Internal Audit Workplan is a critical step in the audit process. Significant audit fieldwork cannot proceed without the review and authorization of the City Manager and approval of the Mayor and the City Council.

Modifications and Changes: The Annual Internal Audit Workplan is routinely modified as circumstances change throughout the year. However, changes will only be made at 1) the direction of the City Manager and the Mayor and the City Council or 2) following changes initiated by the City Auditor and subsequently authorized by the City Manager and approved by the Mayor and the City Council.

Attachment 2

Proposed Annual Internal Audit Workplan for Calendar Year 2009

	Proposed Audit	Scope												
1.	Healthcare Audit	Examine the collection and payment of approximately \$44 million annual healthcare cost. Portions of the fieldwork maybe contracted, including potential dependent verification services.												
2.	Utilities Billing System Review	Billing processes, practices, reconciliations with controlling ledgers will be reviewed for accuracy and completeness.												
3.	Solid Waste Performance Audit	Examine factors and causes of FY 2007's \$3 million net loss.												
4.	Public Safety Overtime Procedures and Internal Control Examination	Review the procedures and controls for overtime in Public Safety Departments. <table border="1"> <thead> <tr> <th>FY 2007</th> <th>Budget</th> <th>Actual</th> <th>Overspend</th> </tr> </thead> <tbody> <tr> <td>Police</td> <td>\$2.1M</td> <td>\$7.7M</td> <td>\$5.6M</td> </tr> <tr> <td>Fire</td> <td>\$2.4M</td> <td>\$7.3M</td> <td>\$4.9M</td> </tr> </tbody> </table>	FY 2007	Budget	Actual	Overspend	Police	\$2.1M	\$7.7M	\$5.6M	Fire	\$2.4M	\$7.3M	\$4.9M
FY 2007	Budget	Actual	Overspend											
Police	\$2.1M	\$7.7M	\$5.6M											
Fire	\$2.4M	\$7.3M	\$4.9M											
5.	Bidding Process Examination of the Department of Transportation	Examine the bidding and change-order procedures and processes for contracts with the Department.												
6.	Procurement Operational Audit	Examine the structure and effectiveness of the City's Procurement division with an estimated annual spend of \$250 million.												
7.	Special Projects	Perform special projects assigned by the City Manager & the City Council.												

	Administrative Requirements/Reports	Description
A.	Continuing Professional Education	Obtain 40 hours of continuing professional education as required by Government Auditing Standards, for each Auditor.
B.	Internal Audit Annual Report	Provide an annual report detailing work completed, projects-in-process, and accomplishments.
C.	Internal Audit Workplan	Gather ideas and information for the following year's Audit Workplan.

RESOLUTION NO.

Adopted by the Sacramento City Council

THE ANNUAL INTERNAL AUDIT WORKPLAN FOR CALENDAR YEAR 2009

BACKGROUND

- A. The City Manager's internal operating practices require the submission of an Annual Internal Audit Workplan for the Mayor and the City Council's approval.
- B. The Annual Workplan contains the planned projects to be completed during the calendar year.
- C. Significant audit fieldwork cannot proceed without the authorization of the City Manager and the approval of a majority of the City Council.
- D. Modifications to the Annual Internal Audit Workplan can be made at anytime; following the authorization of the City Manager and the approval of the Mayor and the City Council.
- E. The Calendar Year 2009 Annual Internal Audit Workplan includes:
 - 1. Healthcare Audit;
 - 2. Utilities Billing System Review;
 - 3. Solid Waste Performance Audit;
 - 4. Public Safety Overtime Procedures and Internal Control Examination;
 - 5. A Procurement Operational Audit;
 - 6. Bidding Process Examination of the Department of Transportation; and
 - 7. Special Projects.

Administrative Requirements/Reports

- A. Completion of Government Auditing Standards requirements for Continuing Professional Education;
 - B. Completion of an Internal Audit Annual Report; and
 - C. Completion of the calendar year 2010 Annual Audit Workplan.
- F. City Council Resolution Number 2008-620 resolved that new Staff Auditor FTEs were to be charged to the Department(s) being audited.

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

Section 1. The Annual Internal Audit Workplan for Calendar Year 2009 is approved.

Section 2 In FY 2009, Risk Fund, Fund number 6502, will be charged for up to three month of costs associated with the two new Staff Auditor FTEs, at a cost NTE \$63,000.

In FY 2010 and future years, costs for Staff Auditor FTEs will be charged to the Risk Fund, Fund number 6502.