

Item No. 27

“To Be Delivered” Material

For

City of Sacramento

City Council

Financing Authority

Housing Authority

Redevelopment Agency

Agenda Packet

For the Meeting of: February 24, 2009

The attached materials were not available at the time the Agenda Packet was prepared.

Title: The Annual Internal Audit Workplan for Calendar Year 2009

Contact Information: Marti Kolkin, City Auditor (916) 808-5704, Office of the City Manager

Please include this “To Be Delivered” material in your agenda packet. This material will also be published to the City’s Internet. For additional information, contact the City Clerk Department at Historic City Hall, 915 I Street, First Floor, Sacramento, CA 95814-2604, (916) 808-7200.



REPORT TO COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www. CityofSacramento.org

Staff Report
February 24, 2009

Honorable Mayor and
Members of the City Council

Title: The Annual Internal Audit Workplan for Calendar Year 2009 (continued from 2/17/09)

Location/Council District: City-wide

Recommendation: Adopt a Resolution approving the Annual Internal Audit Workplan for Calendar Year ("CY") 2009.

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.

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: None

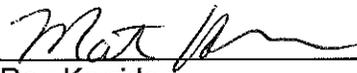
Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this agreement.

Respectfully Submitted by:



Martin Kolkin, City Auditor

Recommendation Approved:

per 

Ray Kerridge
City Manager

Table of Contents:

Report	pg. 1
Attachments	
1 Background	pg. 3
2 Preliminary Internal Audit Workplan for Calendar Year 2009	pg. 4
3 Pros and Cons of the Most Common Types of City Auditors	pg. 6
4 Top 12 CA Cities with Internal Audit Departments & their Reporting Structures	pg. 7
5 Resolution	pg. 8

Attachment 1

Background Information: During the 2/17/09 presentation of the annual Internal Audit Workplan, the Mayor and City Council directed the City Auditor to return with his preliminary Workplan, reprioritized based upon his professional judgment.

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.

Report-Back on Types of City Auditors: On February 17, 2009, the Mayor and City Council requested a report-back on the different type of City Auditors. The three most prevalent types of City Auditor in California are the Elected City Auditor, the Appointed City Auditor - Reporting to a Legislative Body, and the Appointed City Auditor - Reporting to the City Manager. The pros and cons of the most common types of City Auditors are noted in Attachment 3. The type of City Auditor in the top twelve California cities is noted in Attachment 4.

Attachment 2

Preliminary 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.	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><u>FY 2007</u></th> <th><u>Budget</u></th> <th><u>Actual</u></th> <th><u>Overspend</u></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>	<u>FY 2007</u>	<u>Budget</u>	<u>Actual</u>	<u>Overspend</u>	Police	\$2.1M	\$7.7M	\$5.6M	Fire	\$2.4M	\$7.3M	\$4.9M
<u>FY 2007</u>	<u>Budget</u>	<u>Actual</u>	<u>Overspend</u>											
Police	\$2.1M	\$7.7M	\$5.6M											
Fire	\$2.4M	\$7.3M	\$4.9M											
3.	Development Services	Examine the billing system and related internal controls over budgeted revenue of \$16 million.												
4.	Utilities Billing System Review	Billing processes, practices, reconciliations with controlling ledgers will be reviewed for accuracy and completeness in a Department with a \$147 million budget.												
5.	Solid Waste Performance Audit	Examine factors and causes of the FY 2007 \$3 million net loss.												
6.	Bidding Process Examination of the Department of Transportation	Examine the bidding and change-order procedures and processes for contracts in a Department with a \$47 million budget.												
7.	North Natomas Financing Plan	Review the North Natomas Financing Program's Impact Fees, including fee revenues, credit programs, and overall internal controls of a program with cash and credits in excess of \$100 million.												
8.	Procurement Operational Audit	Examine the structure and effectiveness of the City's Procurement division with an estimated annual spend of \$250 million.												
9.	Fleet Utilization and Inventory	Examine the utilization and inventory practices of Division Budgeted at \$33 million.												
10.	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.

Attachment 3

Pros and Cons of the Most Common Types of City Auditors

Elected Auditor

Pro

- Independence and objectivity
- Located outside of all staff or line functions
- Can only be removed by voter recall
- Typically stronger political skills

Con

- Requires a Charter change
- More open to allegations of political motivation or bias
- May attract candidates that are technically unqualified
- Risk of audit findings being ignored

Appointed, Reporting to the Legislative Body

Pro

- Independence and objectivity
- Direct City Council support and authority
- Recommended by the National Association of Gov't Auditors & the Institute of Internal Auditors for Appointed Auditors
- Does not assume any operational functions

Con

- City Auditor oversight responsibility for the City Council
- Communications with City Council subject to the Brown Act
- Less cooperation from management
- Potential conflicts between the City Manager and Auditor
- Less direct interaction with Senior Staff

Appointed, Reporting to a City Manager

Pro

- Greater organizational cooperation
- Greater communication with Executive Management
- Direct City Manager support and authority
- City Manager directs implementation of audit recommendations

Con

- Independence impaired by any limits imposed
- Assigned non-audit activities
- May appear as a member of management
- Serves as an at will position

Appointed, Reporting to the Finance/Budget Director

Pro

- Greater cooperation of the Finance/Budget department
- Reports to position with a similar technical background
- Requires less oversight by the City Council or City Manager
- Existence of an audit function

Con

- Not independent in fact or appearance
- Assigned non-audit activities
- Release and distribution of audit reports uncertain
- Limited operational authority

Outside Contractor for Audit Services

Pro

- Provides an external perspective of operations
- Audit capacity can increase or decrease based on needs
- Does not require the addition of FTEs to the Budget
- Increased capacity to respond to additional requests

Con

- Not as familiar with internal operations
- Higher cost and additional cost for scope increases
- Less likely to have audit follow-up
- Less continuity of audit personnel

Source: Survey of members of the National Association of Local Government Auditors including each of the various types of City Auditors.

Attachment 4

Top 12 CA Cities with Internal Audit Departments & their Reporting Structures

<u>Rank</u>	<u>City</u>	<u>2009 Population (in thousands)</u>	<u>2009 Budget (in millions)</u>	<u>Internal Audit Dept. Size</u>	<u>Reports To</u>
1	Los Angeles	4,046	6,818	22	City Controller - Elected
2	San Diego	1,337	3,127	10	City Council
3	San Jose	989	3,278	14	City Council
4	San Francisco	825	6,531	25	Audit Controller - Elected
5	Long Beach	494	2,345	20	City Auditor - Elected
6	Fresno	489	1,160	4	Budget Manager
7	Sacramento	476	966	2	City Manager
8	Oakland	420	1,070	7	City Auditor - Elected
9	Anaheim	347	1,326	8	City Manager
10	Riverside	306	822	3	City Manager
11	Stockton	291	386	6	City Council
12	Modesto	211	319	1	City Council

Recap of Elected or Reports to:

City Council	4
Elected Controller/Auditor	4
City Manager	3
Other	1

Total	12
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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. Public Safety Overtime Procedures and Internal Control Examination;
 - 3. Development Services;
 - 4. Utilities Billing System Review;
 - 5. Solid Waste Performance Audit;
 - 6. Bidding Process Examination of the Department of Transportation;
 - 7. North Natomas Financing Plan Audit;
 - 8. Procurement Operational Audit;
 - 9. Fleet Utilization and Inventory; and
 - 10. 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.

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.