REPORT TO COUNCIL
City of Sacramento

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Staff Report
April 7, 2009

Honorable Mayor and
Members of the City Council

Title: Report Back on the Organizational Placement of the City Auditor

Location/Council District: City-wide

Recommendation: For Mayor and Council information and discussion purpose.

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 back provides information regarding organizational placement of the City Auditor, as requested by the Mayor and City Council during the presentation of the annual Internal Audit Workplan on February 17th & 24th, 2009.

Policy Considerations: An independent and objective City Auditor is consistent with the City of Sacramento's core values of accountability and fiscal responsibility.

Environmental Considerations:

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

Sustainability Considerations: Not Applicable

Other: Not Applicable.

Commission/Committee Action: None.

Rationale for Recommendation: For information and discussion purposes only.

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:

for _____
Ray Kerridge
City Manager

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Attachment 1

Background Information:

Purpose of the City Auditor
The underlying intent of the Office of the City Auditor is to provide a catalyst for improving municipal operations and identifying opportunities for savings. This is accomplished primarily through independent and objective audits of municipal departments, programs and activities.

Authorization
The authorization for the City Auditor's position was established in Sacramento with Resolution Number 2002-94, dated February 19, 2002. The City Auditor was hired and began work on March 24, 2003.

Current Organizational Placement
The City Auditor reports to the City Manager, with access to the City Council, and maintains organizational and operational independence from all other departments within the City.

An inherent risk within this reporting structure is the perception that the City Auditor's independence could be impaired by an audit scope or report limitation.

Re-examination of the City Auditor's Organizational Placement
Approximately six years have passed since the City's Internal Audit division was first established. It may be time to reevaluate the existing organizational structure for the City Auditor. If the Mayor and City Council determine that no changes to the City Auditor's reporting relationship are needed, no further action would be necessary.

Most Common Organization Placement of California City Auditors
The three most prevalent types of City Auditor in California are:

1) The Elected City Auditor;
2) The Appointed City Auditor - Reporting to a City Council; and
3) The Appointed City Auditor – Reporting to the City Manager.

The type of City Auditor in the top twelve California cities is noted in Attachment 2. The pros and cons of the most common types of City Auditors are noted in Attachment 3. Each type of City Auditor has both advantages and disadvantages. Additionally, Attachment 4 shows the membership of Audit Committees for City Auditors that Report to City Councils.

Additional Information
Additional information maybe obtained independently from an Advocacy Representative of the Association of Local Government Auditors.

Attachment 2

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

Rank	City	2009 Population (in thousands)	2009 Budget (in millions)	Internal Audit Dept. Size	Reports To
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**

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

Audit Committees Membership for City Auditors that Report to City Councils

City	2009 Population (in thousands)	2009 Budget (in millions)	Internal Audit Dept. Size	Audit Committee Members
San Diego	1,337	3,127	10	2 Council Members & 3 Members of the Public
San Jose	989	3,278	14	4 Council Members
Stockton	291	386	6	3 Council Members
Modesto	211	319	1	3 Council Members