

Meeting Date: 5/3/2016

Report Type: Consent

Report ID: 2016-00373

Title: City Auditor's Audit Plan for Fiscal Year 2016/17

Location: Citywide

Recommendation: Pass a Resolution approving the City Auditor's Proposed Audit Plan for Fiscal Year 2016/17.

Contact: Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

Presenter: Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

Department: Mayor/Council

Division: Office of the City Auditor

Dept ID: 01001201

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Resolution
- 4-Audit Plan

City Attorney Review

Approved as to Form
Sandra Talbott
4/27/2016 8:39:15 AM

Approvals/Acknowledgements

Department Director or Designee: Jorge Oseguera - 4/13/2016 10:36:24 AM

Description/Analysis

Issue Detail: City Code § 2.18.030 requires that the City Auditor submit an Annual Audit Plan to the City Council for approval. This report sets forth the City Auditor's Annual Audit Plan for Fiscal Year (FY) 2016/17.

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

Economic Impacts: None

Environmental Considerations: None

Sustainability: None

Commission/Committee Action: On March 1, 2016, the Budget and Audit Committee voted unanimously to forward the Annual Audit Plan to the full City Council for approval.

Rationale for Recommendation: This staff report provides the Mayor and City Council with an opportunity to approve the City Auditor's Annual Audit Plan or to provide comments and feedback for modification of scheduled audits for Fiscal Year 2016/17.

Financial Considerations: The costs of the audits listed in the proposed FY2016/17 Audit Plan will be funded out of the Office of the City Auditor FY2016/17 Budget.

Local Business Enterprise (LBE): Not applicable.

Attachment 02 – Background

The audit function is an essential element of the City of Sacramento's public accountability. The mission of the Office of the City Auditor is “To provide a catalyst for improvements of municipal operations, promote credible, efficient, effective, fair, focused, transparent, and a fully accountable City Government.”

According to City Code Section 2.18.030, “the Annual Audit Plan may be amended during the year with the approval of the city council. The council may, by resolution, authorize a committee, charter officer, or an individual councilmember with respect to the councilmember's own office, to request additional audits.”

In developing the initial Annual Audit Plan, the City Auditor uses a number of techniques and input sources to identify areas of high audit potential that can be completed or initiated during 2016/17 with the audit resources available. For example, in order to identify and prioritize potential audits based on the level of risk to the City, the City Auditor’s Office may complete a Citywide Risk Assessment. The City Auditor’s Office may also solicit audit suggestions from the Mayor, City Council members, City Management, and City staff. Additionally, the City Auditor may identify potential audit areas by reviewing City financial information, reports, policies, procedures, ordinances and regulations. Finally, the City Auditor may rely on professional experience and expertise to identify areas of high audit potential.

By considering a wide variety of information sources, the intent is to submit to the City Council for its approval an Annual Audit Plan that promotes fairness and ensures that the City Auditor’s Office will prove to be value-added for the City of Sacramento by focusing its resources on those areas with the highest audit potential. The results of this process form the basis for the City Auditor’s Annual Audit Plan for Fiscal Year 2016/17.

Given limited audit resources and the workload associated with the management and operation of a whistleblower hotline, two audits are being carried over from the 2015/16 audit plan and four new projects are being added to the proposed 2016/17 audit plan. These four audits will be listed as “priority one” audits and every effort will be made to complete or significantly complete priority one audits during FY 2016/17. Audits labeled “priority two” are audits that are desirable but that the Auditor lacks resources to complete. Priority two audits include an anticipated cost should the Council provide funding for consultants to complete priority two audits on behalf of the Sacramento City Auditor.

Audit Process

To ensure that audits are responsive to the City Council’s needs, as part of the normal audit process, the City Auditor will request input from each councilmember at the start of each audit.

The City Auditor will present completed audit reports to the Budget and Audit Committee, which will also hear testimony from the audited entity and other interested parties. The Budget and Audit Committee will report at a subsequent City Council meeting the results of the Committee’s review of the audit report and its recommendations. The City Auditor may present an audit report directly to the City Council when the City Council directs the City Auditor to do so.

RESOLUTION NO.

Adopted by the Sacramento City Council

APPROVING THE CITY AUDITOR’S ANNUAL AUDIT PLAN FOR FISCAL YEAR 2016/17

BACKGROUND

- A. City Code Section 2.18.030 requires that the City Auditor submit an Annual Audit Plan to the City Council for approval.
- B. The Annual Audit Plan contains the planned projects to be completed during the upcoming fiscal year.
- C. Significant audit fieldwork cannot proceed without the adoption of the audit plan by a majority of the City Council.

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

- Section 1. The City Auditor’s Audit Plan for Fiscal Year 2016/17, attached as Exhibit A, is approved.
- Section 2. Exhibit A is a part of this Resolution.

Attachment 04 – City Auditor’s 2016/17 Audit Plan

EXHIBIT A – CITY AUDITOR ANNUAL AUDIT PLAN FOR FISCAL YEAR 2016/17

Whistleblower Hotline Investigations

City Auditor anticipates that approximately 40 percent of the Office’s resources will be used throughout the year to manage and investigate Whistleblower Hotline activity.

Carried Over From Last Year’s Audit Plan

Priority 1: City Procurement of Small Contracts

The City Auditor will audit the City’s contracting activity for both professional and non-professional services of less than \$25,000. This audit will test if contracting functions are performed in compliance with applicable Federal, State and City laws, regulations, ordinances and policies. The audit will also assess the uniform and consistent application of the contracting process.

Priority 1: An Audit of the Sacramento Police Department

The adopted FY 2014/15 Police Department Budget was almost \$125 million. The mission of the Sacramento Police Department is to work in partnership with the community to protect life and property, solve neighborhood problems, and enhance the quality of life in our community. The Police Department has not been directly audited by the City Auditor in over 5 years. This audit would first perform a department-wide risk assessment that would identify potential audit areas that would benefit from a performance audit. Based on the results of this risk assessment, the City Auditor will perform an audit of the area(s) that would most benefit from the audit process.

Additional Audits Proposed for FY 2016/17

Priority 1: An Audit of the City’s Medical Marijuana Dispensaries

In 1996 the voters of California authorized the use of marijuana for medical purposes through Proposition 215. In 2010 the voters of Sacramento voted to tax the City’s existing medical marijuana dispensaries at a maximum rate of 4% of the business’s annual gross receipts. For fiscal year 2014/15, this tax generated approximately \$2.8 million in revenue for the City of Sacramento. In early 2016, the City Council was asked to address recent state legislation regarding the cultivation of marijuana and modify existing Medical Marijuana Dispensary regulations. During the subsequent discussions, the public expressed concerns regarding how some of these dispensaries were operating. Several City Council members expressed interest in having these issues reviewed by the City Auditor to determine if these concerns were valid. This audit would assess these issues and determine what changes should be considered to improve operations.

Priority 1: An Audit of the City’s Parks and Recreation Department

In FY 2015/16, the City’s Parks and Recreation Department was approved for almost 600 FTE’s and a \$35 million budget. The mission of the Department of Parks and Recreation is to ensure opportunities for people to optimize the experience of living by creating environments for safety, engagement, relationship building and personal development. The Department of Parks and Recreation has not been directly audited by the City Auditor in over 5 years. This audit would first perform a department-wide risk assessment that would identify potential audit areas that would benefit from a performance audit. Based on the results of this risk assessment, the City Auditor will perform an audit of the area(s) that would most benefit from the audit process.

Priority 1: An Audit of the Utilities Inventory System

The Department of Utilities works in conjunction with other City departments as well as regional, state, and federal agencies in the maintenance, development, and rehabilitation of the City’s water resources infrastructure. Given the number of assets required for this and their cumulative value, Utilities upper management has expressed an interest in having a top down audit of their inventory. The focus of this audit would be to evaluate the internal controls surrounding Utilities inventory and those associated processes.

Priority 1: An Audit of the Entertainment and Sports Center Local Hiring and Business Involvement (Phase II)
The City Council has made a \$250 million investment in the ESC. Given the value and potential impact of this investment, the City Council has expressed an interest in having an independent review of the project's ability to meet local hiring, business involvement and other community impact goals. My Office completed an audit in this area in February 2016. In order to confirm that the goals are met or exceeded by the conclusion of the project, the City Council has directed us to reevaluate this matter and report on the final results.

Audits that we would like to perform, but lack the resources necessary to complete

Priority 2: An Audit of the City's Green Efforts (\$75,000)

The City of Sacramento has been a big supporter of advancing green technologies and encouraging the adoption of green practices. As a result, over the last several years, the City of Sacramento has made significant investments to "go green" such as converting 20 percent of the City's vehicles to alternative fuel, broader City-wide use of LED lighting, and installation of solar panels at various City facilities. This audit will assess the City's overall greening efforts. In addition, this audit will identify additional opportunities for the City's investment in green technologies that will further advance our City's greening efforts.

Priority 2: An Audit of Retiree Medical (\$100,000)

In April 2011, our audit of Employee Health and Pension Benefits identified a concern with the lack of formal processes to ensure it pays the correct amounts towards retiree health benefits. In the City's external auditor's December 19, 2014 management letter to the City, the Auditor observed that "the City is not performing a monthly reconciliation of healthcare bills received from insurance providers to the City's records of participating retirees." Given the continued concerns with this program, this audit would review the City's retiree health benefits program and assess the programs performance and seek to identify additional opportunities for improvement.

Priority 2: An Audit of the Community Development Department, Building Division (\$100,000)

During the economic downturn, the Community Development Department experienced a significant decrease in building related activities. As the region's economic condition begins to improve, building activities are expected to increase. An audit of the Building Division would assess current building permitting processes to improve the customer experience and to identify opportunities for further streamlining.

Priority 2: An Audit of the Use of Measure U Funds (\$75,000)

On November 6, 2012, voters of the City of Sacramento, California approved Measure U to enact a one-half cent sales tax for six years. Measure U is projected to generate over \$40 million per year. In 2014, the City Auditor's Office received a whistleblower tip alleging inappropriate use of Measure U funds. An audit of the Measure U funds would test Measure U expenditures to ensure compliance with the measure's intent, and assess whether the Measure U funds are being used efficiently and effectively.

If during the course of the year, the City Council requests an audit of an area not listed on the approved audit plan, the City Auditor will forward the request to the Budget and Audit Committee for consideration and approval.

Other Reports from the Auditor's Office

Quarterly Reports

The City Auditor will forward to the Budget and Audit Committee quarterly reports describing the status of audit assignments and the progress the Office is making toward completing them.

Whistleblower Hotline Activity Reports

On a semiannual basis, the City Auditor will report on the status of the City's Whistleblower Hotline Activity and results.

Recommendation Follow-up Reports

On a semiannual basis, the City Auditor will report on the status of audit recommendations.