



REPORT TO AUDIT COMMITTEE

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STAFF REPORT

June 10, 2010

Honorable Members of the Audit Committee

Title: City Auditor Audit Plan for Fiscal Year 2010-11

Location/Council District: Citywide

Recommendation: Review and forward to the City Council for approval the City Auditor's Proposed Audit Workplan for Fiscal Year 2010-11.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenters: Jorge Oseguera

Department: Office of the City Auditor

Division: N/A

Organization No: 01001201

Description/Analysis

Issue: According to City Code section 2.18.030, the City Auditor shall 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 2010-11.

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

Environmental Considerations: None.

Sustainability Considerations: None.

Rationale for Recommendation: This staff report provides the Audit Committee with an opportunity to approve the City Auditor's Annual Audit Plan or to provide comments and feedback before it is presented to the City Council.

Financial Considerations: The cost of the audits listed in the 2010-11 Annual Audit Plan will be funded out of the Office of the City Auditor's 2010-11 budget.

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

Respectfully Submitted by: 
Jorge Oseguera, City Auditor

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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 the City Code section 2.18.030, "by March 1st each year, the city auditor shall submit an Annual Audit Plan to the city council for approval. 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." ¹

In developing the initial Annual Audit Plan, the City Auditor used a number of techniques and input sources to identify areas of high audit potential that can be completed or initiated during 2010-11 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 completed the first Annual Citywide Risk Assessment. The City Auditor's Office also solicited audit suggestions from the Mayor, City Councilmembers, City Management, and City staff, and identified potential audit areas while reviewing by City financial information, reports, policies, procedures, ordinances and regulations. The Office also considered for inclusion in the 2010-11 plan some "areas requiring further review or analysis" that Management Partners, Inc. identified in the Citywide Financial and Operational Review that it presented to the City Council on May 18, 2010. Finally, the City Auditor relied 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 2010-11.

The list of audits in the City Auditor's Annual Audit Plan for 2010-11 includes a mix of audits and special projects that address a wide range of concerns that are consistent with the City Auditor's areas of responsibility. The Annual Audit Plan for 2010-11 is designed to address the highest priority areas, while limiting its scope to what the City Auditor's Office can complete or initiate during 2010-11.

¹ The City Auditor could not present his Annual Audit Plan by March 1 of this year because the Mayor and City Council appointed the City Auditor after March 1, 2010.

RESOLUTION NO.

Adopted by the Sacramento City Council

**APPROVING THE CITY AUDITOR'S ANNUAL AUDIT PLAN FOR FISCAL YEAR
2010-11**

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 2010-11, attached as Exhibit A, is approved.
- Section 2. Exhibit A is a part of this Resolution.

EXHIBIT A – CITY AUDITOR ANNUAL AUDIT PLAN FOR FISCAL YEAR 2010-11

Health Benefits and Public Employees Retirement System (PERS) Contributions

I am proposing an audit of Health Benefits because: 1) the City spends about \$34 million a year on employee and retiree medical insurance; 2) the City may be exposed to the risk of overpaying medical providers; 3) opportunities may exist to significantly lower the City's cost to provide employee and retiree health benefits; 4) an audit of the timing and amount of City payments to PERS may produce significant savings.

311 Call Center

I am proposing an audit of the 311 Call Center because: 1) In April 2010 the 311 Call Center received 37,626 calls, emails, walk-ins and faxes; 2) recent 311 Call Center activity reports show significant service level deteriorations in both caller wait times and caller hang ups due to long wait times; 3) on average 400 callers per day (Monday-Friday) hang up before getting service; and 4) wait times between 8:00 A.M. and 4:00 P.M. (Monday- Friday) average 5 to 10 minutes.

Revenue Collections

I am proposing an audit of citywide revenue collections because: 1) the Revenue Division collects about \$1.5 million per year in cash payments alone; 2) recent staff reductions have exposed the City to the risk of those City employees who collect cash also performing other incompatible duties and responsibilities with resultant weakened internal controls and longer wait times for those persons wishing to make payments to the City; and 3) a recent local television station news report raised concerns over the timely processing of payment to the City.

Fleet Management

I am proposing an audit of Fleet Management because: 1) the Division's 2010-11 Proposed Budget of \$34,370,000 is \$7,358,574 less than the Division's 2007-08 Actual Budget of \$41,728,574, and a reduction of that magnitude warrants an examination of its impact on the overall state of the City's vehicle fleet; 2) Management Partners, Inc. identified contracting out Fleet Management's Body and Paint Function as a potential cost saving opportunity; and 3) an audit the City Auditor previously conducted of the City of San Jose's vehicle fleet produced significant cost savings and operational improvements.

Purchase Cards

I am proposing an audit of Purchase Cards because: 1) the City makes extensive use of Purchase Cards to acquire goods and services; 2) a prior Sacramento City Auditor Office report identified several problems with a department's use of Purchase Cards, and 3) other jurisdiction's audits of Purchase Card Programs have resulted in significant cost savings and improved internal controls over procurement processes.

Fire Inspection Fees

I am proposing an audit of Fire Inspection Fees because: 1) the City does not charge for the smaller and less complex fire inspections that on-duty fire suppression personnel conduct during the course of their daily duties; 2) the estimated annual cost of these Fire Department inspections is \$3,500,000; 3) other California cities recently starting charging for smaller and less complex Fire Department inspections; and 4) Management Partners, Inc. recommended a Fire Department analysis to determine an equitable fee structure for Fire Department inspections.

Citywide Policy and Procedures Assessment

I am proposing an audit of citywide policies and procedures because: 1) a comprehensive set of formal and appropriately communicated policies coupled with current, complete and well documented procedures are essential to an effective system of internal controls for any organization; 2) the City seems to lack several important formal policies; and 3) of the written procedures the City does have, some appear to be out of date or even conflict with other City written procedures.

Many Other Potential Audits Are Not Included in the City Auditor's 2010-11 Audit Plan

The City Auditor's 2010-11 Audit Plan is ambitious and encompasses a broad array of City programs and services. However, there are many other potential audits that are not included in the 2010-11 Annual Audit Plan due to limited audit resources.

Next Steps

As audit work proceeds, the City Auditor will forward to the Audit Committee quarterly reports describing the status of audit assignments in the Annual Audit Plan for 2010-11 and the progress the Office is making toward completing them. On a semiannual basis, the City Auditor will report on the status of audit recommendations. As part of the normal audit process, the City Auditor will notify the City Council when the Office starts each audit to determine if individual City Councilmembers have any areas of interest or concerns that the Office can address during the audit. This is intended to ensure that audits are responsive to the City Council's needs. The City Auditor will also forward any subsequent additions to the Annual Audit Plan to the Audit Committee for approval.

The City Auditor will present completed audit reports to the Audit Committee, which will also hear testimony from the audited entity and other interested parties. The 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.