REPORT TO AUDIT COMMITTEE
City of Sacramento

915 I Street, Sacramento, CA 95814-2604

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Staff Report
September 14, 2010

Honorable Members of the Audit Committee

Title: Audit Activity Quarterly Report

Location/Council District: Citywide

Recommendation: Accept the Auditor's Office Audit Activities Report for the July 2010 to September 2010.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenters: Jorge Oseguera

Department: Office of the City Auditor

Division:

Organization No: 01001201

Description/Analysis

Issue: According to Resolution No. 2009-407, the City Council should be kept apprised of the City Auditor's work. The Audit Committee shall receive, review, and forward to the full Council the City auditor's updates and reports. This report documents the Auditor's Office activity for the first quarter of Fiscal Year 2010-2011.

Policy Considerations: The City Auditor's presentation of the Audit Activity Quarterly Report 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 information that may be used to meet its responsibility to provide oversight and supervision of the City Auditor.

Financial Considerations: The costs of the audits listed in the Audit Activity Quarterly Report are funded out of the 2010-11 Office of the City Auditor 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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Attachment 1

CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

September 14, 2010

Honorable Members of the Audit Committee
915 I Street - Fifth Floor, New City Hall
Sacramento, CA 95814-2604

Honorable Members of the City Council:

Activity highlights for July through September 2010:

- Interviewed and hired two auditors with start dates of June 28th and July 12th.
- Created the webpage for the auditor's office that can be accessed by visiting www.cityofsacramento.org/auditor/ Included on the website is a description of the role of the City Auditor, our mission and philosophy, authority and responsibility, types of audit services provided, description of our audit process, listing of the city's annual budgets and audit work plans, listing of previously issued audit reports, description of audit staff, listing of related links.
- I have completed my Office's policies and procedures manual. The manual is a reference guide for audit staff, and helps ensure that the Office of the City Auditor conducts its work in accordance with professional standards. The policies and procedures are posted on our website and may be viewed by City employees and the public to gain a better understanding of the audit function and our audit process (www.cityofsacramento.org/auditor/documents/Auditor_Policies_and_Procedures.pdf).
- Met with Government Accountability Office representatives, regarding the City's management of federal stimulus funds.
- Met on several occasions with our external auditors and the CDD Director on the progress of the CDD audit and to discuss some preliminary findings. The audit is expected to be completed by the end of September or early August. The consultant has reported that they have exceeded their projected hours to complete the audit, but remain committed to completing the work without requesting a change order. We have received invoices through August for 75% of the contract amount.
- Met with the Macias Gini & O'Connell, external auditors, to discuss the CAFR and any potential areas of concern.
- Held entrance conferences with four departments. Initiated audits of the City's Health Benefits, the City's Fleet, City's Revenue Collections, and the City's Policies and Procedures. We have made our initial requests for information and are combing through the information we received.
- Working with the City Attorney on potentially establishing a fraud/whistleblower hotline, which includes reviewing recent state legislation that was passed to help local government audit entities establish such functions.

- Audit staff has trained on the City's PeopleSoft system and has begun utilizing the systems query abilities to extract information.
- Wrote an article on performing a risk assessment for the National Association of Local Government Auditors quarterly publication.
- Attended and presented at three "Neighborhood Services Community Partnership meetings" located at:
    1. South Natomas Community Center
    2. Pannell Meadowview Community Center; and
    3. Stockton Boulevard Resource Center
- Attended the new student reception for the Chicano Latino Youth Leadership Conference 2010 at Sacramento State University
- Posted open auditor position on 8/9/2010 and will begin interviewing qualified candidates in September.

Status of the City Auditor's FY 2009-10
Work Plan as of July, 2010

	Preliminary Survey	Risk Assessment	Audit Fieldwork	Report Writing	Projected Issuance Date
Assignments In Process					
Audit of the Community Development Department	Completed	Completed	Completed	In Process	September 2010
Health Benefits and Public Employees Retirement System (PERS) Contributions	Completed	In Process			
Fleet Management	In Process				
Revenue Collections	In Process				
Assignments Temporarily Postponed					
Citywide Policy and Procedures Assessment	Postponed				
Assignments Not Yet Started					
311 Call Center	Not Started				
Purchase Cards	Not Started				
Fire Inspection Fees	Not Started				
City Sidewalk Repair Process	Not Started				

On behalf of the Auditor's Office, I would like to express my appreciation to the City staff for their cooperation and assistance during our reviews.

Respectfully submitted,

Jorge Oseguera

RESOLUTION NO. 2010-382

Adopted by the Sacramento City Council

June 22, 2010

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.

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

Adopted by the City of Sacramento City Council on June 22, 2010 by the following vote:

Ayes: Councilmembers Cohn, Fong, Hammond, McCarty, Pannell, Sheedy, Tretheway, Waters, and Mayor Johnson.

Noes: None.

Abstain: None.

Absent: None.

Mayor Kevin Johnson

Attest:

Shirley Concolino, City Clerk

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.

City Sidewalk Repair Process
After reviewing the Auditor's proposed audit plan, the audit committee requested that an audit of the City's sidewalk repair process be added to the audit plan that will go before the City Council. The committee is concerned with how sidewalk repairs are being identified, prioritized, and addressed. The committee believed there is an opportunity to improve our sidewalk repair system.

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.