REPORT TO AUDIT COMMITTEE

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

Staff
April 12, 2011

Honorable Members of the Audit Committee

Title: Quarterly Audit Activities Report

Location/Council District: Citywide

Recommendation: Accept the Auditor's Office Audit Activities Report for the January 2011 to March 2011 period and forward to City Council for final approval.

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 third quarter of Fiscal Year 2010-2011.

Policy Considerations: The City Auditor's presentation of the Quarterly Audit Activities 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 Quarterly Audit Activities 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: /s/. Jorge Oseguera
Jorge Oseguera, City Auditor

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Attachment 1

CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

April 12, 2011

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

Honorable Members of the Audit Committee:

Activity highlights for January through March 2011:

- Issued the first semiannual recommendation follow-up report in February 2011.
- All audit staff received training on the City's new ADRS system.
- Obtained City Council approval for the 2011-12 Audit Plan.
- Performed high-level review of the Utilities Department to identify potential audit areas.
- Toured the Utilities Department water and solid waste facilities and discussed with Utilities staff potential areas of concern.
- Issued an RFP for the Operational and Cost Efficiency Audit of the Utilities Department.
- Performed a comprehensive review and evaluation of the Utilities Audit proposals and determine that the proposal submitted by Public Financial Management, Inc (PFM) was the most responsive to the City's needs.
- Held entrance conferences with PFM and the divisions of the Utilities Department.
- Coordinated two special audit committee meetings to invite residents and business owners to share their views of the Utilities audit.
- Worked with Councilmember Ashby to create an electronic survey to allow for further community input on the Utilities Departments operations.
- Continue to work with the City Attorney to assess options for establishing a City fraud/whistleblower hotline.

The following table summarizes the status of the audits adopted on June 22, 2010 for the 2010-2011 Audit Plan and incorporates the additional audits added by the 2011-12 Audit Plan.

Status of the City Auditor's FY 2010-11 Work Plan as of March, 2011

	Preliminary Survey	Risk Assessment	Audit Fieldwork	Report Writing	Audit Issuance Date
Assignments Completed					
Audit of the Community Development Department	Completed	Completed	Completed	Completed	October 2010
Health Benefits and Public Employees Retirement System (PERS) Contributions	Completed	Completed	Completed	Completed	April 2011
Assignments In Process					
Utilities Department Operational Efficiency Audit	Completed	Completed	In Process		Projected May 2011
Citywide Policy and Procedures Assessment	Completed	Completed	Completed	In Process	Projected June 2011
Revenue Collections	Completed	Completed	Completed	In Process	Projected July 2011
Fleet Management	Completed	Completed	In Process		
Assignments Not Yet Started					
Utilities Billing	Not Started				
City Whistleblower/Audit Hotline	Not Started				
Purchase Cards	Not Started				
Fire Inspection Fees	Not Started				
City Sidewalk Repair Process	Not Started				
311 Call Center	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.