REPORT TO AUDIT COMMITTEE

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

Staff Report
April 10, 2012

Honorable Members of the Audit Committee

Title: City Auditor's Quarterly Audit Activities Report

Location/Council District: Citywide

Recommendation: Accept the Auditor's Quarterly Audit Activities Report for the January 2012 to March 2012 period and forward to City Council for final approval.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenters: Jorge Oseguera

Department: Mayor and City Council

Division: Office of the City Auditor

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 2011-2012.

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 2011-12 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

April 10, 2012

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 2012:

- Issued Auditor's Quarterly Audit Activities Report for the Oct 2011 to December 2011 period.
- Issued Auditor's Recommendation Follow-up report for the June 2011 to December 2011 period.
- Initiated the contract audit of the Utility Billing System February 10, 2012.
- Issued an *Assessment For Establishing City Whistleblower Hotline* February 14, 2012.
- Began tracking and communications between employees and the City Auditor's Office expressing concerns regarding potential fraud, waste, and abuse. Some review was initiated. Will report out on activity during the next quarterly report.
- Initiated an audit of the City's compliance with AB 1825 Sexual Harassment Prevention training requirements March 12, 2012.
- All employees of the City Auditor's Office completed AB 1825 Sexual Harassment prevention training.
- Reviewed and updated City Auditor's internal policies and procedures.

The following table summarizes the status of the audits adopted on February 22, 2011 for the 2011-2012 Audit Plan.

Status of the City Auditor's FY 2011-12 Audit Plan as of March, 2012

	Preliminary Survey	Risk Assessment	Audit Fieldwork	Report Writing	Audit Issuance Date
Assignments Completed					
Citywide Policy and Procedures Assessment	Completed	Completed	Completed	Completed	Jul 2011
Revenue Collections	Completed	Completed	Completed	Completed	Jul 2011
Municipal Golf Revenue and Expenditure Analysis	N/A	N/A	Completed	Completed	Sep 2011
Fleet Management	Completed	Completed	Completed	Completed	Dec 2011
City Whistleblower/Audit Hotline	N/A	N/A	Completed	Completed	Feb 2012
Assignments In Process					
Fire Inspection Fees	Completed	Completed	In Process		
Utilities Billing	Consultant Selected Jan 2012	Completed	In Process		
AB 1825 Compliance	N/A	N/A	Completed	In Process	
Assignments Not Yet Started					
Citywide Employee Supplemental Pay	Not Started				
Purchase Cards	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

Jorge Oseguera

Attachment 2

EXHIBIT A – CITY AUDITOR ANNUAL AUDIT PLAN FOR FISCAL YEAR 2011-12

Carried Over From Last Year's Audit Plan

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. A reduction of this 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 began 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.

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.

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, e-mails, 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.

Additional Audits Proposed

An Audit of the Utilities Department
At the January 18, 2011 Council meeting, the City Council directed the City Auditor to oversee a contract for an audit the Utilities Department. The audit, as proposed by the City Manager's Office, will be an independent operational efficiency and cost savings audit. Its objective will be to identify the best opportunities for immediate cost saving and operational efficiencies for the department as a whole. The study will include a review of levels of service, administrative and operational procedures, staffing levels, organizational structure and consideration of industry best practices. Recommendations from the audit will be brought forward for Council consideration during the budget process and the Utilities Department rate hearings.

Utilities Billing Processes
I am proposing an audit of the Utilities Billing processes to evaluate their system of internal controls, test the accuracy of bills, and to assess the City's ability to recover what was billed.

Citywide Employee Supplemental Pay
I am proposing an audit of the Employee Supplemental Pay because the Council has expressed interest in enhancing the City's transparency and providing citizen access to information about elected and employee compensation information. In addition to disclosing base pay, it is also important for the City to have a clear understanding of overall employee cash compensation. According to the Finance Department, labor costs make up almost 80% of the General Fund's expenditures. This audit may review supplemental labor costs, overtime, premium pay, out of class pay, and leave costs.

City Auditor and City Attorney Assessment for Establishing a Whistleblower Hotline
The Council has expressed interest in evaluating options for establishing a Whistleblower hotline. California recently approved Whistleblower legislation to allow City Auditors to establish and manage hotlines and to provide provisions for auditors to maintain confidentiality of the reporting parties. The City Auditor, in conjunction with the City Attorney, will report back to the Audit Committee and City Council on some potential options for establishing such a function.

Other Reports from the Auditor's Office

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

Recommendation Follow-up Reports
On a semiannual basis, the City Auditor will report on the status of audit recommendations.

Other Potential Audits Not Included in the City Auditor's 2011-12 Audit Plan

The City Auditor's 2011-12 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 2011-12 Audit Plan due to limited audit resources. The following are a few of the audit areas not included due to limited audit resources:

- Citywide Grants Management
- Citywide Cell Phone Costs and Administration
- An evaluation of the Citywide "Greening" efforts
- Audit of the use of City owned property and facilities

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 Audit Committee for consideration and approval.

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 council member at the start of each audit.

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.