



OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 304
730 I STREET
SACRAMENTO, CA
95814

PH 916-808-5704
FAX 916-808-7618

November 29, 2004

Honorable Mayor, City Council Members, and the City Manager:

The City of Sacramento's Internal Audit Manager has completed an audit of Mayor & City Council discretionary accounts for fiscal year 2004. The audit was conducted in accordance with generally accepted government auditing standards and the responsibilities of the Internal Audit Manager.

This examination was performed to evaluate if appropriate use of public funds occurred in the Mayor and City Council Discretionary Accounts during fiscal year 2004, and to provide an assessment of existing policies, procedures, and practices associated with these accounts.

Based upon the records examined and auditing techniques employed, I have concluded that Mayor and City Council discretionary spending was appropriate and that public funds were not misused during the year examined, fiscal 2004. However, I noted the need for written policies, written procedures, and the establishment of clear practices for the use of discretionary spending.

Martin J. Kolkin
Internal Audit Manager

**Mayor & City Council Discretionary Accounts
Annual Report - Fiscal Year 2004
Report Number 2005-1
Executive Summary**

An audit of the Mayor and City Council Discretionary Accounts for fiscal 2004 was completed. I have concluded that Mayor and City Council discretionary spending was appropriate and that public funds were not misused during the year examined, fiscal 2004.

Additionally, I have identified the areas for improvement, noted as audit findings below, while action taken and the City's Finance Director provided the estimated completion dates.

Audit Findings	Action Taken	Estimated Completion Date
Lack of written policies.	The Finance Director stated that at the Mayor's request, written policies have been prepared and will be presented for review by the Mayor and City Council.	12/14/04
Lack of written procedures.	The Finance Director noted that written procedures were complete.	Completed

Mayor & City Council Discretionary Accounts Annual Report - Fiscal Year 2004 Report Number 2005-1

INTRODUCTION

In accordance with the approved Audit Workplan, the Internal Audit Manager completed an examination of the Mayor and City Council discretionary spending during fiscal year 2004.

OBJECTIVES

The purpose of this audit was to evaluate if the Mayor and City Council discretionary spending was appropriate for fiscal year 2004. Additionally, this examination provided an assessment of existing policies, procedures, and practices associated with these accounts.

AUDIT SCOPE & METHODOLOGY

The scope of this audit focused on spending within the nine discretionary accounts, the Mayor and the discretionary accounts for the eight City Council districts. Additionally, policies, procedures, and practices associated with the discretionary accounts were examined. The audit included, but was not limited to the following:

- Physical observations of budget and accounting operations and practices;
- Analytical review of budget data and financial information;
- Examination and verification of general ledger revenue and expense data for fiscal year 2004. Over 90% of the total discretionary spending in fiscal 2004 was selected for audit sampling; and
- Interviews and discussions with personnel from the Mayor and City Council Department, the Budget and Accounting Divisions, the Finance Department, and the City Manager's Office.

This audit was performed in accordance with generally accepted government auditing standards and the responsibilities of the Internal Audit Manager.

BACKGROUND

Use of Discretionary Accounts

Discretionary accounts afford the Mayor and City Council with an annual funding mechanism that provides opportunities to promote the City or compliment City functions. The use of these accounts is at the discretion of the Mayor and individual City Council members. However, the guidelines for the use of public funds still govern the use of these accounts, misuse and gifts to individuals remain prohibited¹. Accordingly, the Internal Audit Manager defined "inappropriate use" as spending that does not adhere to the guidelines for the use of public funds.

¹ Legal Opinion Memorandum regarding the Use of Council Discretionary Funds, dated October 15, 2001, Samuel L. Jackson, City Attorney.

History

The Mayor and City Council discretionary accounts were established during fiscal year 1999. Annual budgetary funding for discretionary spending was established at \$75,000 in fiscal 1999 and \$50,000 for fiscal years 2000 - 2004.

CONCLUSIONS

Discretionary Account Usage for Fiscal 2004

Mayor and City Council discretionary spending was appropriate for fiscal year 2004. No inappropriate payments and no misuse of public funds were discovered during the audit of the Mayor and City Council Discretionary Accounts. This examination sampled approximately 90% of the total dollar value expended in these accounts during the fiscal year².

Policies, Procedures, and Practices

On December 16, 2003, the Mayor and City Council requested the creation of written policies and procedures for discretionary accounts. Policies and procedures provide a direct managerial control over operations. Policies and procedures establish specific actions to be taken to ensure that objectives are identified and that desired results are achieved.

This audit noted that the Finance Department did not have written policies and procedures for the Mayor and City Council Discretionary Accounts. Employees relied on existing practices. Additionally, employee turnover and changes in processes have further emphasized the need for written procedures.

Recommendation

The Internal Audit Manager recommends that the Finance Director or his representatives establish comprehensive written policies and procedures for the Mayor and City Council Discretionary Accounts. At a minimum, the written procedures should clearly outline the process, the divisional responsibilities within the Finance Department, and the specific documentation requirements necessary for the use of discretionary funds.

Status of Corrective Action

The Finance Director concurred with this recommendation and stated that at the Mayor's request, written policies for discretionary accounts were being prepared and would be presented for review and acceptance by the Mayor and City Council. The Finance Director also noted that comprehensive written procedures were being completed.

² Sample size percentage calculated as a percent of the aggregate of all discretionary expenses recorded in the City's financial system, discretionary accounts, for fiscal 2004.

Other Concerns

In order to eliminate confusion, the Internal Audit Manager recommends that clear and accurate descriptions be used to describe the use and receipt of all discretionary funding within the City's financial system and all supporting registers or ledgers. This finding was also cited in the *Limited Scope Audit of the Discretionary Account for Council District Number Eight*, dated December 9, 2003.

Status of Corrective Action

The Finance Director stated that clear and accurate descriptions will be used to describe the use and receipt of all discretionary funding within the City's financial system and all supporting registers, effective October 1, 2004.

Finance Director's Response



DEPARTMENT OF
FINANCE

FINANCE ADMINISTRATION

CITY OF SACRAMENTO
CALIFORNIA

SACRAMENTO CITY HALL
730 I STREET
ROOM 215
SACRAMENTO, CA
95814-2684

PH: 916-808-1240
FAX: 916-808-5755
TDD (ONLY) 916-264-7227

December 14, 2004

TO: Martin Kolkin, Internal Audit Manager

FROM: Gus Vina, Finance Director

SUBJECT: Internal Audit Manager Recommendations for Mayor & City Council
Discretionary Accounts, Fiscal Year 2004 Annual Report

Recommendations:

The Internal Audit Manager recommends that the Finance Director or his representatives establish comprehensive written policies and procedures for the Mayor and City Council Discretionary Accounts. At a minimum, the written procedures should clearly outline the process, the divisional responsibilities within the Finance Department, and the specific documentation requirements necessary for the use of discretionary funds.

Response:

I concur with the recommendations. Written procedures have been completed. At the Mayor's request, policies for the City Council's Discretionary Accounts have been prepared and will be presented for review by the Mayor and City Council.

Gus Vina

CC: Ken Nishimoto, Deputy City Manager
Russell Fehr, Budget Manager
Dennis Kauffman, Accounting Manager