



# City of Sacramento City Council

915 I Street, Sacramento, CA, 95814  
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**Meeting Date:** 2/22/2011

**Report Type:** Staff/Discussion

**Title: Auditor: 2011/12 Audit Plan**

**Report ID:** 2011-00176

**Location:** Citywide

**Recommendation:** Adopt a Resolution approving the City Auditor's Annual Audit Plan for Fiscal Year 2011-12.

**Contact:** Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

**Presenter:** None

**Department:** Mayor/Council

**Division:** Office of the City Auditor

**Dept ID:** 01001201

## **Attachments:**

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- 1-Description/Analysis
- 2- Background - Audit Plan 2011-12
- 3- Resolution - Audit Plan 2011-12
- 4- Exhibit A: City Auditor Annual Audit Plan FY 2011-12

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### **City Attorney Review**

Approved as to Form  
Matthew Ruyak  
2/17/2011 8:22:32 AM

### **City Treasurer Review**

Prior Council Financial Policy Approval or  
Outside City Treasurer Scope  
Russell Fehr  
2/8/2011 6:20:02 PM

### **Approvals/Acknowledgements**

Department Director or Designee: Jorge Oseguera - 2/16/2011 4:44:49 PM

Assistant City Manager: Patti Bisharat - 2/16/2011 6:02:40 PM



## Description/Analysis

**Issue:** According to City Code Section 2.18.030, by March 1 each year, 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 2011-12.

**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.

**Committee/Commission Action:** On February 15, 2011, the Audit Committee voted **4 – 0** to forward the Annual Audit Plan to the full City Council for approval.

**Environmental Considerations:** None.

**Sustainability Considerations:** None.

**Rationale for Recommendation:** This staff report provides the Mayor and City Council with an opportunity to approve the City Auditor's Annual Audit Plan or to provide comments and feedback for modification of scheduled audits for Fiscal Year 2011-12.

**Financial Considerations:** The cost of the audits listed in the 2011-12 Annual Audit Plan will be funded out of the Office of the City Auditor's 2011-12 budget.

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



## 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 City Code Section 2.18.030, "By March 1<sup>st</sup> 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."

In developing the Annual Audit Plan, the City Auditor uses a number of techniques and input sources to identify areas of high audit potential that can be completed or initiated during 2011-12 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 a 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 by reviewing City financial information, reports, policies, procedures, ordinances and regulations. 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 2011-12.

The list of audits in the City Auditor's Annual Audit Plan for 2011-12 includes several audits that were carried over from the 2010-11<sup>1</sup>. Given limited audit resources, only four new projects are being added to the proposed 2011-12 audit plan. Of the four new audits proposed, two are in response to council direction to audit the Utilities Department and one is in response to Council direction to report back on establishing a whistleblower hotline. The fourth was selected from the previously described process.

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<sup>1</sup> The Auditor's Office was not fully staffed until November 2010 limiting the Office's ability to initiate or complete several of the audits approved for the 2010-11 Audit Plan.



## **RESOLUTION NO.**

Adopted by the Sacramento City Council

### **APPROVING THE CITY AUDITOR'S ANNUAL AUDIT PLAN FOR FISCAL YEAR 2011-12**

#### **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 2011-12, attached as Exhibit A, is approved.
- Section 2. Exhibit A is a part of this Resolution.

#### **Table of Contents:**

Exhibit A – City Auditor's Audit Plan for Fiscal Year 2011-12



**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.