

## **Attachment 04 – City Auditor’s 2016/17 Audit Plan**

### **EXHIBIT A – CITY AUDITOR ANNUAL AUDIT PLAN FOR FISCAL YEAR 2016/17**

#### Whistleblower Hotline Investigations

City Auditor anticipates that approximately 40 percent of the Office’s resources will be used throughout the year to manage and investigate Whistleblower Hotline activity.

#### **Carried Over From Last Year’s Audit Plan**

##### Priority 1: City Procurement of Small Contracts

The City Auditor will audit the City’s contracting activity for both professional and non-professional services of less than \$25,000. This audit will test if contracting functions are performed in compliance with applicable Federal, State and City laws, regulations, ordinances and policies. The audit will also assess the uniform and consistent application of the contracting process.

##### Priority 1: An Audit of the Sacramento Police Department

The adopted FY 2014/15 Police Department Budget was almost \$125 million. The mission of the Sacramento Police Department is to work in partnership with the community to protect life and property, solve neighborhood problems, and enhance the quality of life in our community. The Police Department has not been directly audited by the City Auditor in over 5 years. This audit would first perform a department-wide risk assessment that would identify potential audit areas that would benefit from a performance audit. Based on the results of this risk assessment, the City Auditor will perform an audit of the area(s) that would most benefit from the audit process.

#### **Additional Audits Proposed for FY 2016/17**

##### Priority 1: An Audit of the City’s Medical Marijuana Dispensaries

In 1996 the voters of California authorized the use of marijuana for medical purposes through Proposition 215. In 2010 the voters of Sacramento voted to tax the City’s existing medical marijuana dispensaries at a maximum rate of 4% of the business’s annual gross receipts. For fiscal year 2014/15, this tax generated approximately \$2.8 million in revenue for the City of Sacramento. In early 2016, the City Council was asked to address recent state legislation regarding the cultivation of marijuana and modify existing Medical Marijuana Dispensary regulations. During the subsequent discussions, the public expressed concerns regarding how some of these dispensaries were operating. Several City Council members expressed interest in having these issues reviewed by the City Auditor to determine if these concerns were valid. This audit would assess these issues and determine what changes should be considered to improve operations.

##### Priority 1: An Audit of the City’s Parks and Recreation Department

In FY 2015/16, the City’s Parks and Recreation Department was approved for almost 600 FTE’s and a \$35 million budget. The mission of the Department of Parks and Recreation is to ensure opportunities for people to optimize the experience of living by creating environments for safety, engagement, relationship building and personal development. The Department of Parks and Recreation has not been directly audited by the City Auditor in over 5 years. This audit would first perform a department-wide risk assessment that would identify potential audit areas that would benefit from a performance audit. Based on the results of this risk assessment, the City Auditor will perform an audit of the area(s) that would most benefit from the audit process.

##### Priority 1: An Audit of the Utilities Inventory System

The Department of Utilities works in conjunction with other City departments as well as regional, state, and federal agencies in the maintenance, development, and rehabilitation of the City’s water resources infrastructure. Given the number of assets required for this and their cumulative value, Utilities upper management has expressed an interest in having a top down audit of their inventory. The focus of this audit would be to evaluate the internal controls surrounding Utilities inventory and those associated processes.

**Priority 1: An Audit of the Entertainment and Sports Center Local Hiring and Business Involvement (Phase II)**

The City Council has made a \$250 million investment in the ESC. Given the value and potential impact of this investment, the City Council has expressed an interest in having an independent review of the project's ability to meet local hiring, business involvement and other community impact goals. My Office completed an audit in this area in February 2016. In order to confirm that the goals are met or exceeded by the conclusion of the project, the City Council has directed us to reevaluate this matter and report on the final results.

**Audits that we would like to perform, but lack the resources necessary to complete**

**Priority 2: An Audit of the City's Green Efforts (\$75,000)**

The City of Sacramento has been a big supporter of advancing green technologies and encouraging the adoption of green practices. As a result, over the last several years, the City of Sacramento has made significant investments to "go green" such as converting 20 percent of the City's vehicles to alternative fuel, broader City-wide use of LED lighting, and installation of solar panels at various City facilities. This audit will assess the City's overall greening efforts. In addition, this audit will identify additional opportunities for the City's investment in green technologies that will further advance our City's greening efforts.

**Priority 2: An Audit of Retiree Medical (\$100,000)**

In April 2011, our audit of Employee Health and Pension Benefits identified a concern with the lack of formal processes to ensure it pays the correct amounts towards retiree health benefits. In the City's external auditor's December 19, 2014 management letter to the City, the Auditor observed that "the City is not performing a monthly reconciliation of healthcare bills received from insurance providers to the City's records of participating retirees." Given the continued concerns with this program, this audit would review the City's retiree health benefits program and assess the programs performance and seek to identify additional opportunities for improvement.

**Priority 2: An Audit of the Community Development Department, Building Division (\$100,000)**

During the economic downturn, the Community Development Department experienced a significant decrease in building related activities. As the region's economic condition begins to improve, building activities are expected to increase. An audit of the Building Division would assess current building permitting processes to improve the customer experience and to identify opportunities for further streamlining.

**Priority 2: An Audit of the Use of Measure U Funds (\$75,000)**

On November 6, 2012, voters of the City of Sacramento, California approved Measure U to enact a one-half cent sales tax for six years. Measure U is projected to generate over \$40 million per year. In 2014, the City Auditor's Office received a whistleblower tip alleging inappropriate use of Measure U funds. An audit of the Measure U funds would test Measure U expenditures to ensure compliance with the measure's intent, and assess whether the Measure U funds are being used efficiently and effectively.

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 Budget and Audit Committee for consideration and approval.

**Other Reports from the Auditor's Office**

**Quarterly Reports**

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

**Whistleblower Hotline Activity Reports**

On a semiannual basis, the City Auditor will report on the status of the City's Whistleblower Hotline Activity and results.

**Recommendation Follow-up Reports**

On a semiannual basis, the City Auditor will report on the status of audit recommendations.