



City Council Report

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February 27, 2018

Consent Item 16

Title: City Auditor's Proposed Audit Plan for Fiscal Year 2018/19

Location: Citywide

Recommendation: Pass a Resolution approving the City Auditor's Proposed Audit Plan for Fiscal Year (FY)2018/19.

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

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

Attachments:

1-Description/Analysis

2-Resolution

3-City Auditor's 2018/19 Audit Plan

4-City Auditor's 2018/19 Tentative Audit Order

Description/Analysis

Issue Detail: City Code Section 2.18.030 requires that the City Auditor submit an Annual Audit Plan to the City Council for approval. This report sets forth the City Auditor's Annual Audit Plan for FY2018/19.

Policy Considerations: The City Auditor's presentation of the Audit Plan is consistent with the Mayor and City Council's intent to have an independent audit function for the City of Sacramento

Economic Impacts: None.

Environmental Considerations: None.

Sustainability: None.

Commission/Committee Action: On February 6, 2018, the Budget and Audit Committee voted unanimously to forward the Annual Audit Plan to the full City Council for approval.

Rationale for Recommendation: This staff report provides the 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 FY2018/19.

Financial Considerations: The costs of the audits listed in the proposed 2018/19 Audit Plan will be funded out of the Office of the City Auditor FY2018/19 Budget.

Local Business Enterprise (LBE): Not applicable.

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, and promote a credible, efficient, effective, fair, focused, transparent, and fully accountable City Government."

In developing the initial 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 FY2018/19 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 may complete a Citywide Risk Assessment. The City Auditor's Office may also solicit audit suggestions from the Mayor, City Council members, City management, and City staff. Additionally, the City Auditor may identify potential audit areas by reviewing City financial information, reports,

policies, procedures, ordinances, and regulations. Finally, the City Auditor may rely 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 FY2018/19.

Given limited audit resources and the workload associated with the management and operation of a whistleblower hotline, three Priority 1 audits are being carried over from the FY2017/18 audit plan. Due to the increased workload associated with the growth of building activity in the City, the Community Development Department felt an audit of their Building Division at this time would negatively impact their staff's ability to deliver services to the public. As a result, the Auditor's Office downgraded the Audit of the Community Development Department, Building Division to a Priority 2 audit. The Auditor's Office will continue to reevaluate the priority of this audit in future audit plans. The Audit of City Owned/Leased Property has been moved up to a Priority 1 audit as this topic has not been previously addressed by the Office of the City Auditor and is timely given Council's interest in ensuring City property is being efficiently and effectively managed to its highest and best use. Six additional projects are being added to the proposed FY2018/19 audit plan. These six audits will be listed as "Priority 1" audits and every effort will be made to complete or significantly complete priority one audits during FY2018/19. Audits labeled "Priority 2" are audits that are desirable but that the Auditor lacks resources to complete. Priority 2 audits include an anticipated cost should the Council provide funding for consultants to complete Priority 2 audits on behalf of the Sacramento City Auditor.

According to City Code Section 2.18.030, "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."

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 Budget and Audit Committee, which will also hear testimony from the audited entity and other interested parties. The Budget and 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.

RESOLUTION NO.

Adopted by the Sacramento City Council

APPROVING THE CITY AUDITOR’S ANNUAL AUDIT PLAN FOR FISCAL YEAR 2018/19

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 2018/19, attached as Exhibit A, is approved.
- Section 2. Exhibit A is a part of this Resolution.

Attachment 03 – City Auditor’s 2018/19 Audit Plan

EXHIBIT A – CITY AUDITOR ANNUAL AUDIT PLAN FOR FISCAL YEAR 2018/19

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.

Priority 1 Audits Carried Over From Last Year’s Audit Plan

Priority 1: An Audit of the Sacramento Police Department

The adopted FY2017/18 Police Department Budget was over \$130 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 6 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 Fire Department Emergency Medical Services (EMS)

The City Auditor’s Office completed an audit of the Fire Department Overtime Use in February 2017. Included in this report was the identification of the Fire Departments EMS as an area of audit interest. An Audit of the Fire Department EMS would evaluate the service delivery costs, revenues, and general operations to determine if adequate controls are in place to ensure efficient and effective performance.

Priority 1: An Audit of City Retiree Benefits

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 seek to identify additional opportunities for improvement.

Additional Priority 1 Audits Proposed For FY 2018/19

Priority 1: An Audit of City Owned/Leased Property

The City of Sacramento owns and leases property throughout the City. The objective of this audit would be to identify all City owned and leased real property that the City, private parties, and non-profit organizations lease, occupy, or otherwise use and assess if opportunities for more efficient use and management exist.

Priority 1: An Audit of On-Street Parking

The City of Sacramento operates over 5,000 metered parking spaces. In 2012, City Council directed the Parking Services Division to pursue parking modernization through technology/rate enhancements, expansion, and legislation. This project included upgrading on-street parking meters with sensors and new technology that would improve the user experience by offering credit card and mobile payments. This audit would evaluate these new features and identify additional opportunities for improvement of on-street parking operations.

Priority 1: An Audit of Recycling and Solid Waste (\$130,000)

With an adopted budget of over \$55 million in FY17/18, the Recycling and Solid Waste Division is responsible for recycling and refuse collection, yard waste collection, household hazardous waste collection, household junk pickup, street sweeping, illegal dumping cleanup, and landfill post-closure maintenance and monitoring. This audit would include an evaluation of the recycling and solid waste service levels. The City Auditor has self-identified a potential conflict of interest in performing an audit of the transfer station. To mitigate this potential conflict, the transfer station will not be included in the scope of this audit.

At their February 6, 2018 meeting, the Budget and Audit Committee expressed interest in providing additional funding for this audit through the Solid Waste Fund. Additional funding would allow for the audit to be completed more expeditiously without significantly affecting the City Auditor's proposed audit order. Should Council provide funding for consultants to perform this audit on behalf of the Office of the City Auditor, we estimate the cost at approximately \$130,000.

Priority 1: An Audit of the Department of Utilities Vehicle Fleet

The Department of Utilities (DOU) is dedicated to continuous improvement. As a testament to that dedication, and in coordination with the City Auditor's Office, DOU has identified the department's vehicle fleet as an area of interest. In FY2017/2018, DOU's vehicle fleet consisted of more than 500 vehicles with an average annual cost of more than \$6 million. This audit would evaluate maintenance costs, vehicle utilization, and general operations to determine if adequate controls are in place to ensure an efficient and cost-effective vehicle fleet.

Priority 1: An Audit of the Animal Care Services Division

With an adopted budget of just under \$5 million in FY17/18, the City's Animal Care Services Division provides animal care services including sheltering, adoption, community outreach, code enforcement, and abuse investigations. In addition, Animal Care Services operates a robust volunteer program that includes both in-shelter volunteers and foster-care volunteers. This audit would assess compliance with applicable laws and evaluate shelter practices aimed at protecting the health, safety and welfare of shelter animals, staff, volunteers, and the public.

Priority 1: An Audit of the Community Development Department, Code Enforcement Division

The Code Enforcement Division promotes and maintains a safe and desirable living and working environment in the City through enforcement of City and State codes. Programs and services include neighborhood and business code compliance, graffiti abatement, weed abatement, substandard/dangerous and vacant buildings, and rental housing inspection. This audit would review compliance with applicable laws and regulations, evaluate efficiency of enforcement operations, and assess the complaint resolution process.

Priority 1: An Audit of the Department of Utilities Security and Emergency Preparedness

The Department of Utilities (DOU) provides and maintains water, wastewater, and storm drainage services and facilities for City ratepayers. These services are crucial to safeguard the health and safety of the public. The department's Security and Emergency Preparedness Unit was created to protect DOU employees and facilities and to better prepare DOU to respond to different types of emergencies, including natural disasters. This audit would review security protocols and assess the department's ability to respond to emergencies in a safe, efficient, and effective manner.

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 may forward the request to the Budget and Audit Committee for consideration and approval.

Audits That We Would Like To Perform, But Lack The Resources Necessary To Complete

Priority 2: An Audit of the Department of Youth, Parks, and Community Enrichment's Park Operations and Facility Maintenance (\$125,000)

In 2017, the Office of the City Auditor performed a department-wide risk assessment of the Youth, Parks, and Community Enrichment Department. Park operations and facility maintenance were identified as areas that could benefit from further review and analysis. This audit would assess park operations and facility maintenance to identify areas of 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 have increased. 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 City Grants Management (\$75,000)

The City provides grants to various entities that provide services to Sacramento residents. This audit would assess overall grant program management in areas such as awarding grants, monitoring grantees, and program performance and reporting.

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 the Office of Cannabis Policy and Enforcement (\$100,000)

The Office of Cannabis Policy and Enforcement was formally established in 2017 and is responsible for the development and implementation of the City's cannabis related policies and regulations. This audit would evaluate the extent to which the Office of Cannabis Policy and Enforcement accomplishes its mission as this new and developing industry continues to mature.

Priority 2: An Audit of the Accounting Division (\$75,000)

The Accounting Division is primarily responsible for processing payments to the City's employees and vendors, reviewing and recording financial transactions, providing oversight for the system of internal controls to safeguard City assets and preparing annual financial statements. This audit would assess compliance with applicable laws, regulations, and City policies.

Priority 2: An Audit of the Department of Information Technology (\$100,000)

The Information Technology (IT) Department manages a full range of information technology and related services for all City Departments and the public. These IT systems, infrastructure, and information range from relatively simple to extremely complex. This audit would evaluate whether IT controls protect City assets, ensure data integrity, and are aligned with the City's overall goals.

Other Reports From The City Auditor's Office

Quarterly Activity 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 Progress Reports

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

Ethics Commission

The City Auditor will perform an annual assessment of the Compliance Officer's ability to meet the deliverables established by the City Council. This may include an assessment of the processes and policies established by the Officer, validation of the Officer's Performance measures, and a review of the impact of the services provided by the Officer. The City Auditor will also work to determine how best to coordinate the exchange of information related to complaints and whistleblower activity that are brought to the attention of either office.

Sacramento Community Police Review Commission

The Sacramento Community Police Review Commission provides a venue for community participation in reviewing police department policies, practices, and procedures. This commission is tasked with monitoring the implementation, evaluation, and sustainability of city policing initiatives and programs. The City Auditor will perform a review of semiannual and quarterly reports by the commission and report to the council on whether the commission is meeting the Council's expectations.

Attachment 04 – City Auditor’s 2018/19 Tentative Audit Order

Audits Already Started

- 1: An Audit of City Retiree Benefits
- 2: An Audit of the Sacramento Police Department

Tentative Order Of Audits That Will Commence As Audit Resources Become Available

- 3: An Audit of City Owned/Leased Property
- 4: An Audit of On-Street Parking
- 5: An Audit of Recycling and Solid Waste
- 6: An Audit of the Department of Utilities Vehicle Fleet
- 7: An Audit of the Animal Care Services Division
- 8: An Audit of the Fire Department Emergency Medical Services (EMS)
- 9: An Audit of the Community Development Department, Code Enforcement Division
- 10: An Audit of the Department of Utilities Security and Emergency Preparedness

Other Reports That The City Auditor’s Office Will Complete Throughout The Year

Whistleblower Hotline Investigations and Activity Reports

Quarterly Activity Reports

Recommendation Follow-up Reports

Ethics Commission

Sacramento Community Police Review Commission

Audits That We Would Like To Perform, But Lack The Resources Necessary To Complete

Priority 2: An Audit of the Department of Youth, Parks, and Community Enrichment’s Park Operations and Facility Maintenance (\$125,000)

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

Priority 2: An Audit of City Grants Management (\$75,000)

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

Priority 2: An Audit of the Office of Cannabis Policy and Enforcement (\$100,000)

Priority 2: An Audit of the Accounting Division (\$75,000)

Priority 2: An Audit of the Department of Information Technology (\$100,000)