



REPORT TO AUDIT COMMITTEE City of Sacramento

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STAFF REPORT
Feb 14, 2012

Honorable Members of the Audit Committee

Title: City Auditor Audit Plan for Fiscal Year 2012-13

Location/Council District: Citywide

Recommendation: Review and forward to the City Council for approval the City Auditor's Proposed Audit Plan for Fiscal Year 2012-13.

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 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 2012-13.

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.

Environmental Considerations: None.

Sustainability Considerations: None.

Rationale for Recommendation: This staff report provides the Audit Committee with an opportunity to approve the City Auditor's Annual Audit Plan or to provide comments and feedback before it is presented to the City Council.

Financial Considerations: The cost of the audits listed in the 2012-13 Annual Audit Plan will be funded out of the Office of the City Auditor's 2012-13 budget.

Attachment 1**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 1st 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 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 2012-13 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 2012-13.

The list of audits in the City Auditor's Annual Audit Plan for 2012-13 includes several audits that were carried over from the 2011-12¹. Given limited audit resources, only three new projects are being added to the proposed 2012-13 audit plan. The new audits proposed are a *City Inventory Systems Audit*, *City Wireless Communications Audit*, and a *City Vendor List Audit*.

¹ The Auditor's Office was not fully staffed during the year due to several long term leave requests limiting the Office's ability to initiate or complete several of the audits approved for the 2011-12 Audit Plan.

RESOLUTION NO.

Adopted by the Sacramento City Council

**APPROVING THE CITY AUDITOR'S ANNUAL AUDIT PLAN FOR FISCAL YEAR
2012-13**

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 2012-13, attached as Exhibit A, is approved.
- Section 2. Exhibit A is a part of this Resolution.

EXHIBIT A – CITY AUDITOR ANNUAL AUDIT PLAN FOR FISCAL YEAR 2012-13**Carried Over From Last Year's Audit Plan****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.

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.

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.

Additional Audits Proposed**City Inventory Systems Audit**

Establishing strong controls to protect City assets is important to ensure adequate supplies of materials, inventory accuracy, and inventory accountability. For this audit, we will perform a targeted Citywide risk assessment to identify which City operations could most benefit from an inventory audit. Based on this risk assessment, we will perform additional analysis to review and test whether adequate internal controls exist to manage City inventories, prevent and detect errors and irregularities, and ensure system access is properly segregated.

City Wireless Communications Audit

The purpose of this audit is to assess whether adequate controls are in place regarding cell phone assignment, oversight and use. This audit will also review contracts with service providers to determine if they are designed to economically and effectively meet the City's communication needs.

City Vendor List Audit

The master vendor file is a critical City resource. Inaccurate, incomplete, or unauthorized master vendor files could have a negative effect on processing vendor payments and may increase the risk of fraud or abuse in the City's vendor payments. This audit will assess whether the City has adequate controls regarding its master vendor file and is effectively monitoring and maintaining its vendor information.

Other Reports from the Auditor's OfficeQuarterly 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 2012-13 Audit Plan

The City Auditor's 2012-13 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 2012-13 Audit Plan due to limited audit resources. The following are a few of the audit areas not included due to limited audit resources:

- City Grants Management and Oversight
- Citywide Inventory of City IT Systems
- An Audit of Heavy Vehicle Use
- Audit of the use of City owned property and facilities
- City Overtime Controls Audit

During the course of the year, the City Council may collectively decide to add an audit of an area not listed on the approved audit plan. The Audit Committee may also modify the Auditor's approved audit plan as needed. However, doing so will limit the Office's ability to complete the audits already on the audit plan.

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.