



Office of the City Auditor

CONSENT CALENDAR

March 25, 2008

To: Honorable Mayor and Members of the City Council

From: Ann-Marie Hogan, City Auditor

Submitted by: Ann-Marie Hogan, City Auditor

Subject: 126 Opportunities to Increase Revenues, Control Costs, and Decrease Risk:  
What Happens to an Audit Recommendation Deferred?

RECOMMENDATION

Direct the City Manager to:

- 1) Resolve issues that prevent implementation of recommendations of the 1999 Budget Monitoring Audit regarding improved accountability, skills, and training in budget monitoring.
- 2) Develop and document the strategy in place to resolve issues related to the Sungard/HTE FUND\$ financial systems software that, according to City staff, prevent them from implementing audit recommendations.
- 3) Report to Council on progress made on these issues by May 20, 2008, and no less frequently than every six months thereafter, until resolved.

FISCAL IMPACTS OF RECOMMENDATION

Minimal cost to assign responsibility and report to Council; significant revenue increases and cost reductions to be gained from actions to be taken.

CURRENT SITUATION AND ITS EFFECTS

Audit recommendations not yet implemented include 126 lost or deferred opportunities to increase revenue, control costs, and decrease risk. The City Manager's Council reports as well as informal discussions with staff have identified three key issues in need of resolution:

- Accountability: The auditors found a need for better-defined departmental accountability for budget performance. Full implementation of recommendation 1.1 of our [Departmental Budget Monitoring Audit](#) (issued November 23, 1999) is critical to resolving this. Full implementation will require more specific direction from the City Manager. It will also require strong coordination between Budget, Finance, and the operating departments, as well as a commitment to assigning appropriately skilled staff while giving them the training and the technology they need to do the work.
- Qualified and well trained staffing needed for a culture of high performance: The Departmental Budget Monitoring Audit recommended that minimum skills requirements for hiring and promoting staff assigned to budget duties be established and that annual training be provided.
  - It does not appear that many of the minimum requirements (accounting and software skills) published by the former Budget Manager in 2000 have been incorporated into the class specifications, recruitment materials, testing, civil service lists, or hiring decisions for those classifications most frequently assigned to budget monitoring. One classification, Senior Budget Specialist, was revised to require nine semester units of accounting; however, the position is in use in only one department, with one incumbent.
  - With input from Finance and Budget, clear, written, and ongoing guidance is required from the City Manager regarding what kind of skills are needed to perform duties assigned to budget monitoring staff and how to make sure that hiring practices support City needs in general.
- Software: The City's financial software, Sungard/HTE FUND\$, has been named by staff as a barrier to making improvements in more than half of the reports on the attached schedule of open recommendations. The City Manager must determine whether or not this is the case and how to resolve the problem.

We discussed these, as well as other concerns in our [2007 Annual Report](#) and last year's report on [Outstanding Audit Recommendations](#).

To maximize revenue, reduce fraud opportunities, and better monitor workload, costs, and achievements, the City needs qualified hires, staff training and accountability, and the fundamental tools and technology to get the work done.

When our recommendations are implemented, our audits can make a difference.

Council members have asked for more analysis, including a re-sort of recommendations so that those reports with the largest number of outstanding recommendations appear more prominently. We have prepared and attached two spreadsheets of outstanding recommendations. The first is sorted by number of recommendations not yet reported to Council as cleared; the second, by age of the original report.

### **Fire Department Ambulance Billing Recommendations Appear Implemented**

The [Fire Department Ambulance Billing](#) report heads the first list only because, though improvements are evident, Fire is not yet due to report back to Council. In fact, this audit is an excellent example of what can happen when audit recommendations are implemented and not deferred. According to the City Manager's [FY 2008 Second Quarter Budget Update](#), during the first half of the fiscal year, the City collected 26.5% more ambulance revenue than for the same period in FY 2007, or nearly \$300,000 in additional revenue. The City Manager made a conservative projection of an increase in these revenues for the year of over \$235,000 "primarily due to better billing and collection processes". He also increased future annual projected revenues for both billing improvements and fee increases.

In reviewing the attached spreadsheets, it is important to consider both the number of recommendations and the age of the recommendations. It is not necessarily the report with the greatest number of outstanding recommendations, which poses the greatest risk. Recommendations that have been recurring and those that remained outstanding for a long period of time may indicate significant unaddressed risk.

Audit reports can be viewed on the City Auditor's web site:

[Outstanding Audit Recommendations](#)  
[Budget Monitoring Audit Council Report](#)  
[Budget Monitoring Audit Report](#)  
[FUND\\$ Change Management Audit Council Report](#)  
[FUND\\$ Change Management Audit Report](#)  
[Audit Reports & Workplans](#)

### **RATIONALE FOR RECOMMENDATION**

Revenues can be increased, fraud opportunities decreased, and expenditures and outcomes better monitored if our recommendations are timely implemented.

### **ALTERNATIVE ACTIONS CONSIDERED**

Regarding FUND\$/HTE issues, the auditors considered a broader recommendation to report to Council about past decisions and current strategy of either replacing the software or "making it work". An internal study several years ago surfaced possible recommendations related to improving FUND\$ training, and addressing computer and accounting skills deficiencies.

Regarding skills sets for budget monitors, the auditors considered a broader recommendations about the accounting and computer skills needed, not only for budget analysts, but also for any staff charged with monitoring revenues, expenditures, or project performance. Here are some options for City Manager consideration:

- One possibility could be to require sign off by the Finance Director and the Budget Manager for all changes to relevant class specifications, recruitment materials, tests, creation of civil service lists, interview questions, and/or hiring decisions for any staff charged with fiscal oversight.
- In some larger cities, operating departments use accountants to monitor budgets and internal controls. Alternatively, the City could consider more actively using the existing Senior Budget Specialist position, which was updated in 2005 to require nine units of accounting and other relevant skills.
- A comprehensive Budget Specialist and Business Analyst series could be established (for entry, journey level, and senior positions), parallel to the existing management analyst series. The series could include all of the recommended minimum qualifications for budget monitors in terms of accounting coursework and experience, and the City's application and selection process could also include testing of computer and other skills.
- Whatever strategies are chosen, recruitment and development of a pool of City employees with stronger fiscal management, accounting, project management and computer skills has potential for positive impact far beyond budget monitoring. Developing these human resources would be critical to success in making improvements to the existing FUND\$ system, as well as improving project and program management Citywide.

While the City Manager should consider these broader recommendations, this report only requests that the City Manager implement previously agreed upon recommendations, and that more complete and timely information be provided to Council.

CONTACT PERSON

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Attachments:

- 1: Recommendations sorted by number outstanding
- 2: Recommendations sorted by audit report date

**Status Report on Open Audits  
Outstanding Recommendations (by number outstanding)  
As of March 25, 2008**

<b>Audit Title</b>	<b>Date of Audit Report</b>	<b>Scheduled Council Report</b>	<b>Total Recomm.</b>	<b>Total Outstanding Recomm.</b>
Fire Department Audit - Ambulance Billing	6/12/2007	9/30/2008	23	19
Follow-Up Audit of Public Works Construction Contracts	2/27/2007	4/22/2008	22	14
Fire Department Audit - Controlled Substances	10/9/2007	9/23/2008	12	12
FUND\$ Change Management Audit	5/4/2004	8/28/2008	23	11
Audit of the Association of Sports Field Users	5/23/2006	9/23/2008	13	7
Parcel Based Special Taxes, Fees, and Assessments Audit	3/15/2005	7/31/2008	22	6
Departmental Budget Monitoring Audit	11/23/1999	5/20/2008	15	6
FY 2008 Surprise Cash Count: Berkeley Animal Shelter	10/9/2007	4/22/2008	6	5
Marina Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement	10/9/2007	4/22/2008	5	5
Customer Service Cash Receipts / Cash Handling Audit	4/8/2003	5/6/2008	23	5
Police Staffing Audit	4/30/2002	5/20/2008	11	5
Fire Department Audit - Lost Time and Overtime	5/22/2007	9/30/2008	6	4
Nature Center Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement	11/6/2007	4/22/2008	7	3
Audit of Police Asset Forfeiture Deposit Accounts	9/11/2007	4/22/2008	9	3
Purchase Order Audit - Select Public Works Divisions At the Corporation Yard	3/15/2005	6/24/2008	23	3

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Citywide Contract Compliance Audit	5/18/2004	3/31/2009	18	3
Information Systems General Controls Audit	9/16/2003	12/31/2008	27	3
FY 2008 Surprise Cash Count: Permit Service Center	11/6/2007	5/15/2008	5	2
Follow-up Cash Receipts / Cash Handling Audit	5/16/2006	5/6/2008	7	2
Accounts Payable Audit	12/16/2003	4/22/2008	16	2
Cash Receipts/Cash Handling Audit - Parks, Recreation & Waterfront	9/17/2002	2/26/2008 (Past Due)	20	2
Cash Receipts/Cash Handling Audit - Treasury	9/17/2002	5/6/2008	19	1
Business License Tax Audit Report For Year Ending June 30, 1999	4/11/2000	6/17/2008	7	1
Public Works Grants Audit	9/16/1997	4/22/2008	8	1
Berkeley Police Department Cash Receipts Audit	9/12/1995	4/22/2008	17	1
<b>Total</b>			<b>364</b>	<b>126</b>

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Outstanding Recommendations (by audit date)  
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