

Office of the City Auditor

CONSENT  
June 28, 2005

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan *AMH* City Auditor

Subject: Audit Coordination and Reports

RECOMMENDATION

Adopt a Resolution: 1) expanding current Council directives to include notifying the City Auditor of anticipated or planned audits or studies by external parties, in addition to those completed; 2) augmenting the previous Council requirement that reports be provided within five working days of receipt to ensure advance notification; and 3) amending City administrative regulations and other guidelines to reflect the new policy.

FISCAL IMPACTS OF RECOMMENDATION

No significant cost in materials or staff time is anticipated. There may be some cost savings in the reduction of duplication of audit effort through early notification, and reductions in cost of photocopying to the extent that a notification requirement replaces the requirement to provide copies of all audits to the City Auditor.

CURRENT SITUATION AND ITS EFFECTS

Each year, a number of audits or management studies are performed for the City by external parties. Among the mandated audits, which are subject to Government Audit Standards, are audits conducted by granting agencies, such as desk audits by the State of California or other granting authorities, and the annual financial statement audit conducted by a commercial firm selected by the Mayor, in accordance with the Charter. Audits and management studies which are not mandated, but which may be initiated by the City, include audits of City programs, contracts, and taxpayers, and a variety of consulting reports, any of which may be similar to audits performed by the City Auditor's staff.

Government Audit Standards and audit best practices require that auditors consider the work of other auditors in both the planning stages and the internal control/risk assessment stages of their audits. The City Auditor is required by Charter to perform work in accordance with Government Audit Standards.

Current City policy, adopted by Council in June of 1983, requires that a copy of every audit report and management letter be provided to the City Auditor within five working days of receipt by the City Manager or the Department Director. This Council direction is memorialized in the City Manager's Administrative Regulation 3.6, which the City Manager has requested the City Auditor to update.

Neither the Council policy nor the City Manager regulation currently addresses a requirement for notification in advance that an audit or consulting engagement is planned. The effect of this omission is that neither the City Auditor nor the other governmental and commercial auditors are able to rely on each others' work to the extent now recommended or required by audit standards. In addition, for non-mandated audits proposed by City staff, there may be a missed opportunity for City Auditor's staff to offer assistance and advice. In some cases, this may result in duplication of effort and unnecessary expense.

#### BACKGROUND

Effective June 28, 1983, Council required that the City Auditor be provided all audits and management letters within five working days of receipt. Revisions to Government Audit Standards in 2003 have strengthened and increased requirements for coordination and communication between auditors, documenting reliance on other auditors' work, and following up on outstanding findings and recommendations of other auditors.

The City Auditor is required to follow Government Audit Standards, as are certain other auditors. The City Charter was amended in 1998, at the City Auditor's request, to require adherence to these standards, which had previously been followed voluntarily. The Charter language was based on *Guidelines and Model Authorizing Legislation For Local Government Audit Functions*, issued by the National Association of Local Government Auditors (N.A.L.G.A.) in 1992.

As Government Accounting Standards have been amended over time, N.A.L.G.A. has also made some additions to the relevant guidelines. The current version of the guidelines speaks to the specific issue of the best way to coordinate audit activities, stating that, of the key elements which are critical for providing an effective independent audit function, one is to "Assign the auditor responsibility to coordinate and monitor all audits and audit related services received by the local government entity including those performed by public accountants, consultants, or audit organizations of the entity and its subdivisions."

The purpose of the current proposal is to ensure that the City Auditor is notified of all planned or contemplated audits and similar consulting activities. This has been discussed with the City Manager, who supports the concept of notification and has asked to be kept informed as well.

#### RATIONALE FOR RECOMMENDATION

Given limited resources, it is incumbent upon City staff to do all that we can to avoid duplication of effort and to ensure that work is performed in the most efficient and effective manner possible.

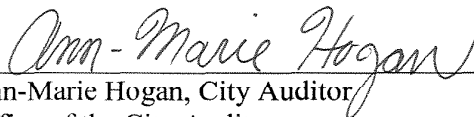
#### ALTERNATIVE ACTIONS CONSIDERED

One action considered was to simply amend the City Manager's Administrative Regulation without requesting Council direction. However, this requirement was originally put in place by Council, and it seemed appropriate that Council should confirm the decision to amend it.

#### CONTACT PERSON

Ann-Marie Hogan, City Auditor  
Office of the City Auditor, (510) 981-6750

Approved:

  
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Ann-Marie Hogan, City Auditor  
Office of the City Auditor

Attachments:  
Resolution- Exhibit A

RESOLUTION NO. ##,###-N.S.

EXPANDING CURRENT COUNCIL DIRECTIVES TO INCLUDE NOTIFYING THE CITY AUDITOR OF ANTICIPATED OR PLANNED AUDITS OR STUDIES BY EXTERNAL PARTIES, IN ADDITION TO THOSE COMPLETED

WHEREAS, the City Auditor, by Charter, has the authority and responsibility to conduct performance audits, financial audits, and special studies of all phases of Berkeley government in accordance with government auditing standards; and

WHEREAS, City Auditor staff perform audits of City systems, programs, taxpayers, and contracts; and

WHEREAS, management and employees in the public sector are responsible for taxpayer use of public resources and should be held accountable for carrying out this responsibility efficiently and effectively; and

WHEREAS, existing Council direction requires that the City Auditor be provided copies of all outside audit reports and management letters within five working days of receipt; and

WHEREAS, in order to enable the provision of audit services and consultations in the most timely, efficient, and effective manner, it is necessary to provide the City Auditor and the City Manager with information about the need for such services in a timely fashion.

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley directs the City Manager to ensure that staff promptly notify the City Auditor when audits and similar engagements are anticipated or contemplated.

BE IT FURTHER RESOLVED, that the City Auditor shall be notified when each draft audit report or study is received for review and when each final report is received, and shall be given the opportunity to obtain a copy of each final report within five working days of receipt by City staff.