



Office of the City Auditor

## INFORMATION CALENDAR

October 17, 2017

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Auditor  
Subject: City Auditor's Report on Results Fiscal Year 2017

### INTRODUCTION

The attached City Auditor's Report on Results for fiscal year ending June 30, 2017 is available on the City Auditor's Website: [www.cityofberkeley.info/auditor](http://www.cityofberkeley.info/auditor)

### CURRENT SITUATION AND ITS EFFECTS

In FY 2017, the City Auditor's Office issued eight reports to Council, including six audits containing 51 recommendations. This report highlights four of those audits as well as several City Manager Council reports showing how implementing our recommendations has improved city service delivery and reduced risk. We noted three recurring areas of risk across multiple audits; our recommendations address them. We include data on recommendations not yet implemented; inaction leaves those risks unaddressed.

### **Three Areas of Risk and Opportunity**

Consistent areas of risks in diverse audits include:

- **Who's in charge? Unclear roles, responsibilities, guidance, and accountability.** Lack of clearly documented expectations impairs effective service delivery. Clear direction, written procedures and service level agreements increase transparency and help departments and partner agencies avoid the pitfalls of "silo thinking". Our audit reports and follow up reports from city departments and commissions tell the story: [Zero Waste Billing](#)<sup>1</sup>, [Public Works Grants and Department Director Transition Procedures Follow-up](#)<sup>2</sup>, [Line of Business Experts](#)<sup>3</sup>, [Ambulance Billing Follow-up](#)<sup>4</sup>, [HR Merit-Based Hiring and Promotions System](#)<sup>5</sup>, and [General Fund Reserve Policy Fails to Convey that Maintaining the Reserve is a Priority](#)<sup>6</sup>.

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<sup>1</sup> Unified Vision of Zero Waste – Service Levels, Billing, Equity: <http://bit.ly/2xmUy1X>

<sup>2</sup> Follow Up Audits – Public Works Grants and Department Director Transitions: <http://bit.ly/2xf7zM4>

<sup>3</sup> Line of Business Experts: Structured Approach for Enterprise Resource Planning: <http://bit.ly/2wH1jlm>

<sup>4</sup> Ambulance Billing Follow-Up: <http://bit.ly/2wGO61>

<sup>5</sup> Human Resources' Merit-Based Hiring and Promotions System: <http://bit.ly/2w7hRtX>

<sup>6</sup> General Fund Reserve Policy Fails to Convey that Maintaining the Reserve is a Priority: <http://bit.ly/2jMHK0d>

- **Fraud risk: Who has access to change data? Fiscal controls needed in software so supervisors can monitor access; a strong ethical climate can help prevent fraud and improve service delivery and employee satisfaction.**
  - A contracted audit of the [Payroll Audit Division](#)<sup>7</sup> found weaknesses in the City's financial software, FUND\$, including an inability to produce reports to allow monitoring of which employees have what computer access. Payroll and IT developed interim but cumbersome workarounds; risk will be fully addressed when the FUND\$ payroll module is replaced in 2019.
  - Our [\\$52,000 Theft](#)<sup>8</sup> audit noted that previous audits since 2002 found computer access problems in purchasing and cash handling, and lack of monitoring. Parks, Recreation and Waterfront reported improvements in training and monitoring, but Finance still must improve citywide guidance and should report back to Council in December.
  - In our [Construction Permit](#)<sup>9</sup> audit, we also found a high risk that staff could steal, make errors, or inflate performance results because of access weaknesses. Planning reports those fraud vulnerabilities are resolved.
  - Results of our ethics survey and audit include progress made and actions planned: [Berkeley's Ethical Climate Rated Strong Overall and Management Working to Make it Better](#)<sup>10</sup>.
- **Do we know where we're going and how to get there? Long-term planning, performance accountability and tough funding decisions needed.** Our audit of the [Year 2020 Zero Waste Goal](#)<sup>11</sup>, found no written strategic plan to identify needed funding, actions, accountability measures and reporting. Public Works has not issued any follow up reports, but the Zero Waste Commission reported they will move forward on a strategic plan this year. In the Planning Department, holding staff, customers, and the City Council accountable for improving service delivery is key to making improvements recommended in our construction permit audit as well as a recent consultant report. Planning reported on what they can accomplish this year without adding more resources in a June 27 special Council meeting.<sup>12</sup> Their plan includes clearly defining roles and performance standards for staff and clarifying expectations for submitting complete information by applicants, as we recommended. Council and the City Manager have also taken significant steps towards a citywide strategic plan.

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<sup>7</sup> Performance Audit of the Payroll Audit Division: <http://bit.ly/2ypBcYJ>

<sup>8</sup> \$52,000 Theft; Citywide Changes: <http://bit.ly/2xvJGPP>

<sup>9</sup> Construction Permits: Monitor to Ensure Excellent, Equitable Service: <http://bit.ly/2hjgv8S>

<sup>10</sup> Berkeley's Ethical Climate: Rated Strong Overall, Working to Make it Better: <http://bit.ly/2yviSNY>

<sup>11</sup> Underfunded Mandate: Resources, Strategic Plan for Year 2020 Zero Waste Goal: <http://bit.ly/2xnixyp>

<sup>12</sup> Improving Planning Department Customer Service; Implementation Plan: <http://bit.ly/2xmh9wG>

### City Manager Status Reports Needed on Older Audits

The City Manager implemented all recommendations for our hiring and promotions audit and our reserves audit in 2017, and reported progress on the Permit Center and cash handling audit. Management did not report to Council this year on seven of our open audits. Council reports on three of them are scheduled for October 31, November 14 and December 12:

- [Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance](#)<sup>13</sup>
- [Underfunded Mandate: Resources, Strategic Plan, and Communication Needed to Continue Progress Toward the Year 2020 Zero Waste Goal](#)<sup>14</sup>
- [Written Guidance and Improved Monitoring can Help Prevent Unnecessary Overtime at the Animal Shelter and Help Manage Citywide Comp Time](#)<sup>15</sup>

We issued the [Business License Tax audit](#)<sup>16</sup> in fiscal year 2012. Since then management has only reported once to Council, in FY 2014. Finance is scheduled to report on December 12.

Delays in implementing audit recommendations lead to unacceptable risks to essential city operations. Results of inaction can include lost opportunities, suboptimal service, or fraud, waste, and abuse.

### BACKGROUND

The mission of the City Auditor's Office is to be a catalyst for improving city government. Our audits, conducted in accordance with government auditing standards, provide the City Manager, City Council, and the public with objective, timely, and accurate information about city program performance. By providing this information and making recommendations for improvement, we help hold government accountable in its stewardship of public resources.

### ENVIRONMENTAL SUSTAINABILITY

We manage and store our audit workpapers and other documents electronically to significantly reduce our use of paper and ink. The audits we discussed in this report, particularly those involving Zero Waste, included recommendations that support the City's environmental sustainability goals.

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<sup>13</sup> Contracts: <http://bit.ly/2xfAkrW>

<sup>14</sup> 2020 Zero Waste Underfunded Mandate: Resources, Strategic Plan needed: <http://bit.ly/2xnixyp>

<sup>15</sup> Animal Shelter Overtime and Citywide Comp Time Guidance and Monitoring: <http://bit.ly/2ypow3T>

<sup>16</sup> Business License Taxes: Providing Better Guidance and Customer Service Will Increase Revenues: <http://bit.ly/2hhxfRM>

POSSIBLE FUTURE ACTION

Council asks the City Manager to report back on progress made on audits until all recommendations have been implemented or the findings cleared by alternative actions. Reporting to Council on progress made is essential so that Council can become aware of potential needs for additional resources, improved software, and consistent priority-setting, which frequently involves Council action.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The City Manager's reports to Council should provide more specific information about the resources used, and the resources and priority setting needed from Council in order to implement recommendations made in our audits.

CONTACT PERSON

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Attachments:

1: City Auditor's Report on Results Fiscal Year 2017



# CITY AUDITOR'S REPORT ON RESULTS

Ann-Marie Hogan,  
City Auditor

IN FY 2017, WE ISSUED...

**8** Reports to  
Council

**6** Audits

**51** New  
Recommendations

**THE MISSION OF THE CITY AUDITOR'S OFFICE IS TO BE A CATALYST FOR IMPROVING CITY GOVERNMENT.** Our audits, conducted in accordance with Government Auditing Standards, provide the City Manager, City Council, and the public with objective, timely, and accurate information about City program performance. By providing this information and making recommendations for improvement, we help hold government accountable in its stewardship of public resources.

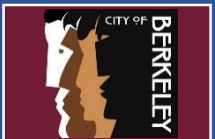
In FY 2017, the City Auditor's Office issued 8 reports to Council including 6 audit reports containing 51 recommendations to city departments. This report also notes several Council reports from city departments on actions taken in response to our audits, and the status of recommendations from previous years' audits.

# HOW OUR WORK MADE A DIFFERENCE



## Berkeley's ethical climate gets stronger

Management worked to demonstrate equity and transparency in hiring, support employee growth, and provide for a safe and ethical workplace, with an improved whistleblower policy and a leadership program that included City Auditor and City Attorney ethics training.



## HR improves transparency in hiring and promotions

The Human Resources Department timely implemented all four recommendations to maintain and strengthen recruitment practices, procedures, and transparency.



## Planning tackles construction permit processes

In June 2017, the Planning Department reported the specific steps they will take in 2018 towards excellent and equitable service, within existing resources. Root causes for not meeting established performance goals were identified in our audit and a consultant report; resolution will require future Council action.



## A structured approach to Line of Business Experts

Information Technology is incorporating our recommendations as they implement a strategic plan and replace existing citywide financial software with improved enterprise resource management applications. Our recommended structured approach includes service level agreements between IT and departments and defining the responsibilities and resources required to train and develop employees working across departmental lines.



## Fire improves ambulance billing processes

The Fire Department now uses an electronic report system to improve efforts to recover unpaid ambulance bills. Fire improved coordination with internal partners, and is re-doubling efforts to ensure local hospitals provide needed patient information.



## Zero Waste moves towards long-term planning

The Zero Waste Commission pledged to move forward this year with a strategic plan, recommended in our 2014 audit Unfunded Mandate/Year 2020 Zero Waste Goal. Public Works should issue status reports on this audit and the 2017 Zero Waste billing audit in October.



## PRW implements plan for cash-handling

The Parks, Recreation, and Waterfront Department has implemented a corrective action plan for their cash-handling sites in response to our audit. Finance must move forward with improved Citywide monitoring to reduce fraud risk, and will report in December.



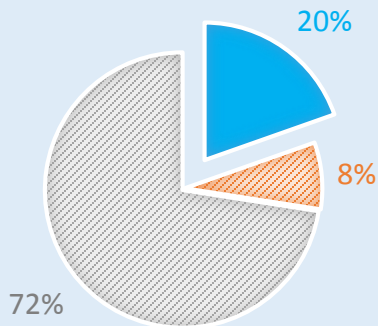
## Council establishes General Fund reserves policy

Council adopted a General Fund Reserve Policy, based on the City Manager's proposed policy implementing our recommendations. Council continues to work on adopting clear guidance for using and replenishing reserves, a critical step in avoiding unfunded liabilities not only in the General Fund but in all city funds.

# SNAPSHOT OF PROGRESS MADE AND CHALLENGES AHEAD

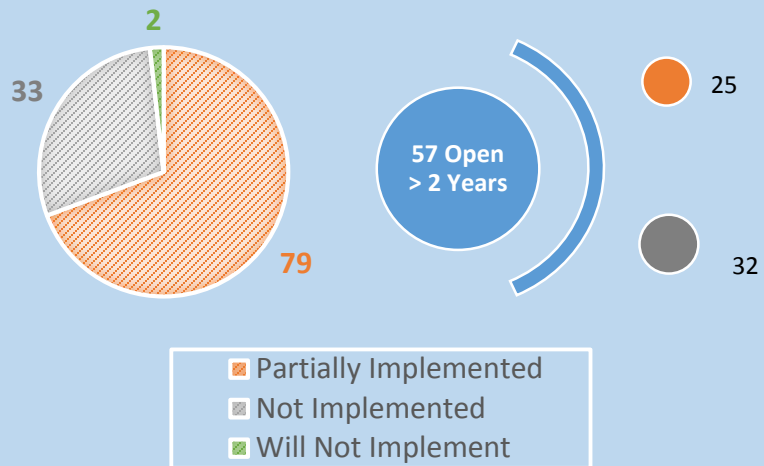
\*As of August 31, 2017

## FY 2017 Recommendations



- 20%** of fiscal year 2017 recommendations to improve City performance and safeguard assets were fully implemented
- 8%** were partially implemented
- 72%** have not been implemented

## 104 Recommendations FY 2009-2018 Not Implemented



Full implementation is less likely for **25** partially implemented and **32** not implemented recommendations that are **over 2 years** old, resulting in lost opportunities for improvement and continued risk of fraud.

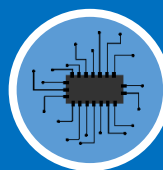
## CONSISTENT AREAS OF RISK

OUR AUDITS INDICATE SYSTEMIC ISSUES THAT RESULT IN LOST OPPORTUNITIES AND RISK OF FRAUD.



### Long-term planning, accountability, and funding decisions needed

Strategic planning is needed to make a reality of the City's goals, and to address current unfunded liabilities and future risks. Effective strategic plans include setting long term goals and publishing short term steps to get there, with frequent reporting of results.



### Fraud risk: software improvements and monitoring needed

Excessive access to software systems and unreliable data due to poor security were common occurrences in areas we audited, resulting in insufficient monitoring. These conditions can easily lead to fraud.



### Service delivery at risk from undocumented, unclear expectations

Clear direction in written procedures increases transparency, improving accountability for results. Solid policies and processes safeguard assets and improve service.

# Note from the City Auditor

*“Our 2017 work made a difference because of the enthusiasm of individual City employees in embracing ideas for improving the effectiveness and efficiency of city services. Our shared successes as change agents are also due to the support for continuous improvement of City of Berkeley services from the City Council, the City leadership team, Commissioners, and people who live, work, study, and enjoy life here. Thank you!”*

**Ann-Marie Hogan**  
**City Auditor 1994-2018**



## Office of the City Auditor Performance Audit Staff

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