

INFORMATION CALENDAR

July 23, 2019

To: Honorable Mayor and Members of the City Council

From: Jenny Wong, City Auditor

Subject: City Auditor Amended Fiscal Year 2019 Audit Plan and Fiscal Year 2020 Audit Plan

INTRODUCTION

The Berkeley City Charter requires the City Auditor to provide the City Council with a planned audit schedule by the beginning of each fiscal year and to notify Council when audits are dropped or added. In deciding what to audit, our office considers suggestions from the City Manager, staff, the City Council, commissioners, and other community members. We examine risks that might prevent the City from reaching its goals, including strategic, financial, regulatory, operational, and reputational risks.

CURRENT SITUATION AND ITS EFFECTS

On [July 24, 2018](#)<sup>1</sup>, we presented our Audit Plan for the 2019 fiscal year. As required by the City Charter, we are notifying the Council of a modification to our annual audit plan: We added an audit of the City's Domestic Violence Leave Policy to the fiscal year 2019 audit plan to determine whether the policy is in line with state law and best practices.

For Fiscal Year 2020, we have identified areas we hope to address in the upcoming year:

- Housing and homelessness
- Streets
- Recruitment and retention
- Fiscal accountability
- Climate change and disaster response
- Follow-up on prior audit recommendations
- Rollover from FY 2019 – Equipment Replacement Fund Follow-up audit, Library Tax audit, and Domestic Violence Leave Policy audit

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<sup>1</sup> City Auditor Fiscal Year 2019 Audit Plan (7/24/19) <http://bit.ly/2VBJwDQ>

BACKGROUND

The mission of the Berkeley City Auditor is to promote transparency and accountability in Berkeley government. This is achieved through independent evaluations of City programs and activities. The 2020 Audit Plan reflects Auditor Wong’s steadfast commitment to continuous improvement by enhancing the value, products, staffing, communications, and overall impact of the Berkeley City Auditor’s Office on behalf of Berkeley residents, businesses, and visitors.

ENVIRONMENTAL SUSTAINABILITY

This report is not associated with identifiable environmental effects or opportunities.

POSSIBLE FUTURE ACTION

Our future audit recommendations will address the risks that could prevent the City from providing efficient, effective, and equitable service delivery. We will be asking Council to accept those recommendations and request that the City Manager report on its actions to implement them. We may also make recommendations requiring Council action.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Audit work leads to new or enhanced revenue, cost recovery, and increased efficiency, with economic impact well beyond the audit costs. Long-range financial benefits of our audits result in significant improvements to internal controls and service delivery.

Ensuring timely implementation of audit recommendations could result in additional savings and risk reduction, including fraud risk. Reducing fraud risk more than protects money; it builds trust in government. Maintaining a strong audit function and prudent program and fiscal management will reduce future costs and enhance public trust.

CONTACT PERSON

Jenny Wong, City Auditor, 510-981-6750

Attachment:

1. Audit Plan Fiscal Year 2020

# Audit Plan Fiscal Year 2020

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BERKELEY CITY AUDITOR

# Letter from the Auditor



I am pleased to present the Berkeley City Auditor’s Fiscal Year 2020 Audit Plan.<sup>1</sup> Our office is responsible for conducting performance audits of City functions - deep dives into the working of our various City programs with the goal of maximizing taxpayer dollars and delivering top-quality services. Since taking office, I have been meeting with my office’s staff, department heads, the City Manager, Council Members, former auditors, and others in the community to better understand how things have functioned in the past and how to effectuate these responsibilities going forward.

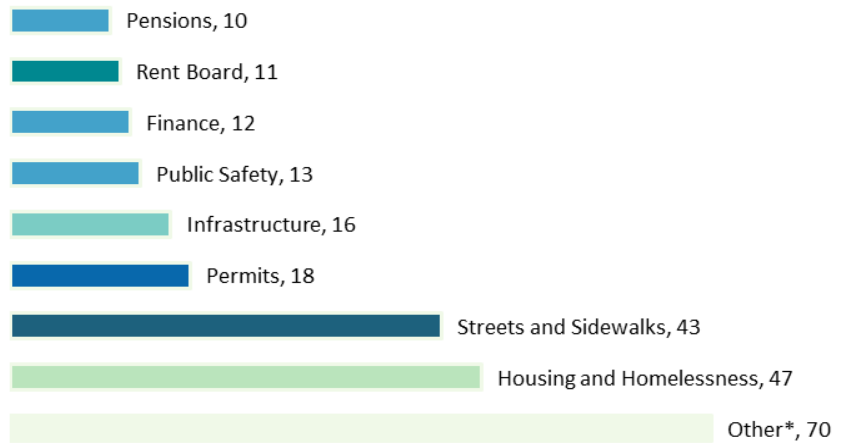
In drafting this plan, we considered input from a wide range of sources and the people of Berkeley. To gather community input, I talked with thousands of residents and conducted a survey where 300 Berkeley residents responded on issues of greatest concern. Since taking office, I have met with Berkeley elected officials and management about their unique operational risks and challenges. Finally, my staff and I identified existing or emerging areas of risk where we can add value, including reviewing issues that haven’t been examined, such as recruitment and retention practices.

While I want to address many issues of concern, resource limitations mean my office can only conduct a few audits a year. The top departments the community wants to be audited include Public Works (our streets); Health, Housing and Community Services (housing and homelessness); and Planning (permitting process). I recently learned that the Permit Center is taking initiative to gather public information about the permitting process. Our office can best add value to that area after this process has been completed.

The other areas, which include streets, homelessness, and housing – along with producing reports on the status of outstanding audit recommendations – will form part of our office’s priorities. I will also be conducting an audit of City payments to address one of the core functions of our office that has not been a focus in prior years. This will be another priority and will require additional resources.

I look forward to carrying out these audits to deliver independent, transparent, and accountable oversight, thereby safeguarding the public’s investments in the City of Berkeley. I am committed to providing ongoing information on how tax dollars are spent and how government operates on behalf of everyone who cares about Berkeley, including residents, business owners, visitors, workers, and decision-makers.

### Areas of Concern from Community Survey



\* Responses varied widely, including topics outside our jurisdiction.

Source: Community survey conducted by Jenny Wong, 2018

<sup>1</sup> We emailed this audit plan to City Council on June 28, 2019 as required by the Berkeley Municipal Code.



# Planned Engagements 2020

## Housing and Homelessness

Berkeley's strategic plan clearly lays out the first steps towards the City's goal to, "Create affordable housing and housing support services for our most vulnerable community members." Berkeley housing and homelessness problems are complex and involve a multitude of factors, both internal and external. The City has made strides to address homelessness through programs, services, and partnerships with community agencies.

## Streets

Berkeley did not pave any City streets in 2018, even though the City had set aside \$8.6 million for repairs. The delay means that the conditions of Berkeley's streets, which are not very good to begin with, will deteriorate further. Ultimately, the longer the City takes to repair streets the more costly the repairs become.

## Recruitment and retention

People are the City's greatest resource. An immediate threat to operations and strategic planning is workload capacity: The City may not have the staffing resources to provide expected and critical services.

## Fiscal accountability

The Auditor's office will review selected City contracts, payments, and agreements as required under Berkeley City Charter Section 61, to evaluate and ensure performance, value, and proper City oversight.

## Climate change and disaster response

Is the City of Berkeley adequately adapting to the risks posed by climate change? In response to climate change risks, Berkeley voters committed to reduce the entire City's greenhouse gas emissions by 80 percent below 2000 levels by 2050 with the passage of Measure G in 2006 and the City adopted the Berkeley Climate Action Plan. Our region has also faced increased fire risk to wildland-urban interface zones. As a city, we have a responsibility to mitigate these risks to the City through appropriate policies and emergency response plans. The ability to undertake this will be contingent upon the availability of staffing resources.

## Follow-up

The Auditor's office tracks and follows-up on all audit recommendations to determine if they were properly implemented by City government.

## Rollover from FY 2019

- Equipment Replacement Follow-up
- Domestic Violence Leave Policy
- Library Tax

# Plan Description

The mission of the Berkeley City Auditor is to promote transparency and accountability in Berkeley government. This is achieved through independent evaluations of City programs and activities. The 2020 Audit Plan reflects Auditor Wong's steadfast commitment to continuous improvement by enhancing the value, products, staffing, communications, and overall impact of the Berkeley City Auditor's Office on behalf of Berkeley residents, businesses, and visitors.

## Auditing Under the City Charter

The Charter provides that the Auditor shall have the authority to conduct:

- Performance and financial audits or special studies of all phases of the City of Berkeley government in accordance with government auditing standards;
- Financial, compliance, efficiency and economy, and program results auditing; and
- Examinations of payrolls, bills, and other claims and demands made against the City.

The 2020 Audit Plan ensures broad audit coverage throughout the City while also addressing specific performance, financial, contractual, and system risks. Audit resources are limited, thus prohibiting one hundred percent coverage each year. This significant limiting factor is inherent in the concept of using risk assessment to help prioritize audits. According to the City Charter, the ultimate decision to perform any audit shall be at the sole discretion of the Auditor. Our approach to scheduling audits is flexible and subject to change throughout the year based on newly identified risks.

## Audit Follow-up Program

Audit follow-up activities are conducted for every audit to assess whether City personnel implemented the agreed-upon audit recommendations. The Auditor's Office issues follow-up audit reports to City Council on the status of our recommendations. We will issue a report this fall on outstanding recommendations. Our office measures the audit recommendation implementation rate as an indicator of the degree to which the City is using information provided by our audit reports to mitigate identified risks and to enhance efficiency, effectiveness, and economy of operations.

## Focus on Integrity, Independence, Impact, and Inclusion

The concepts of integrity, independence, impact, and inclusion are core tenets of operations within the Berkeley City Auditor's Office. Although the Auditor operates independently from other City entities, Auditor Wong and staff meet regularly with the Mayor, City Council, City personnel, neighborhood groups, and civic leaders to solicit input regarding risks. The objective of this strategy is to improve services and stewardship of City resources.

# Audit Selection Process

Developing an annual Audit Plan is an iterative process, conducted by assembling ideas from a variety of internal and external stakeholders, examining a broad range of City programs and activities, and assessing risk factors together with additional considerations. This approach results in a diverse list of departments, programs, and activities that are examined to determine whether they are operating efficiently, effectively, and in accordance with the law and other requirements.

In developing a list of potential audits, ideas come from a variety of sources:

- Input from the community, elected officials, department staff, and City management;
- Assessment of operations and controls in previous audit reports;
- Assessment of Citywide risks;
- Consideration of current local events, financial conditions, capital improvement projects, and public policy issues; and
- Consideration of risks identified in other government audits that could emerge in Berkeley.

Our office identifies and prioritizes potential audits and other assessments using a risk-based approach that examines a variety of factors that may expose the City to fraud, misuse of funds, waste, liability, or reputational harm. The following risk factors are used to determine the audits included in the audit plan:

- Perception of risk from management, City Council, the community, and audit staff;
- Economic factors such as financial impact, volume of transactions, number of personnel, and revenue generated;
- Changes in organization, management, key personnel, and information systems; and
- Time since last audit.

After the plan is finalized, new information may come to light; events, initiatives, priorities, and risks within the City may change. The flexible nature of the Audit Plan as a living document provides the ability to change course when it is in the best interest of the City.



# Auditor's Authority

The Berkeley City Auditor's Office provides independent oversight of City operations. Audits, conducted by the Office, 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, the Office helps to hold government accountable in its stewardship of public resources. Berkeley City Charter, Section 61, establishes this independence and provides for the Auditor's general authority and duties. The Charter also establishes the duty to present a planned audit schedule to City Council at the beginning of each fiscal year.

Several key components serve as the cornerstone for Berkeley's auditing framework. These elements provide the Auditor with the independence that results in the office's ability to conduct high-impact audits.

**Elected Auditor** — The City of Berkeley has an elected Auditor who is independent from all other elected officials and City management.

**Comprehensive Access** — The City Charter and Municipal Code authorize the Auditor to have unrestricted access to all officials, employees, records, and reports maintained by the City, and to all external entities, records, and personnel related to contracted business interactions with the City.

**Audit Response Requirements** — City Municipal Code requires that City management formally respond to all audit findings and recommendations, establishing the Auditor's ability to work in conjunction with audited departments while maintaining independence.

**Recommendation Follow-up Requirements** — City Municipal Code requires that City management report back to Council on the status of audit recommendations every six months until all recommendations are implemented, establishing the Auditor's ability to determine the adequacy, effectiveness, and timeliness of management's actions to correct reported issues and recommendations.

**Adherence to Professional Auditing Standards** — The Auditor's Office conducts all audits in accordance with Generally Accepted Government Auditing Standards produced by the United States Government Accountability Office.



BERKELEY CITY AUDITOR

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