

# Audit Plan

# Fiscal Year 2023

## Inside

Letter from the Auditor

Planned Engagements

Plan Description

Audit Selection Process

Auditor's Authority



BERKELEY CITY AUDITOR

# Letter from the Auditor



I am pleased to present the Berkeley City Auditor’s Fiscal Year 2023 Audit Plan.<sup>1</sup> Our office conducts performance audits of city functions, where we investigate city programs to determine their effectiveness and compliance with local laws and regulations. Our goal with each audit is to ensure that the City is using taxpayer dollars efficiently and delivering high-quality services. We aim to initiate all the engagements identified in the audit plan during the fiscal year. Our capacity to initiate and complete projects this fiscal year will be dependent on resource constraints.

We drafted this plan by considering audit topics that can add the most value to the City while also evaluating resource constraints in the City and my department. In 2020, the City had to quickly adapt to the COVID-19 pandemic and make necessary changes to protect city employees and Berkeley residents. As we exit the emergency phase of the pandemic, the City will likely be developing new policies for a more sustainable future. Therefore, audits that provide oversight and accountability of these policies will be more important than ever. Our work is crucial in ensuring that city services function properly and truly benefit the Berkeley public.

In the past fiscal year, our office published relevant and timely reports on some of the most pressing issues facing the City. We released an audit of Berkeley Police overtime and outside security work in February 2022 after the public called for the City to reimagine its public safety system in 2020. This audit provided important considerations for BPD, City Council and City Management as they look to change the way public safety is conducted in the City. Our office also released a report in May 2022 analyzing the City’s financial condition; a particularly relevant topic as the City faced decreased revenues due to the COVID-19 pandemic.

In FY 2023, we will continue an audit of city employee retention that was initially started in FY 2020 and postponed during the pandemic. We will also initiate an audit of the City’s role in addressing issues related to homelessness and an audit of the Rent Stabilization Board. Our office has additionally restarted our process of following up on departments’ implementation of recommendations from previous audits. We will be publishing a dashboard of open recommendations to increase transparency of the status of audit recommendations; see page four for a current list of open recommendations. Finally, we may also conduct various projects that provide pertinent information to stakeholders on issues affecting the Berkeley public.

I am committed to our mission of promoting transparency and accountability in Berkeley government, therefore I look forward to administering these audits in order to provide independent assessments of city funded programs and operations. As an elected official who serves the residents of Berkeley, I will be working with the Berkeley public and on behalf of everyone who cares about Berkeley, including residents, business owners, visitors, workers, students, and decision-makers.

Respectfully,

A handwritten signature in black ink that reads "Jenny Wong". The signature is fluid and cursive.

JENNY WONG  
City Auditor

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



# Planned Engagements FY 2023

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## Homelessness

The Auditor’s Office will conduct an audit of the City’s role in addressing issues related to homelessness.

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## Rent Stabilization Board

The Auditor’s office will conduct an audit examining the Rent Stabilization Board’s finances or operations.

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## Follow-Up

The Auditor’s office will continue to track and follow up on all audit recommendations to determine if they are properly implemented. We will also be launching an online public dashboard to increase transparency and accountability of the implementation status of open audit recommendations.

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## Short-Term Projects

In order to be responsive to the needs of the City and the public, we may engage in short-term projects to provide timely and relevant information and analysis to the City and community.

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## Ongoing Engagements

We will continue our analysis of employee retention that was deferred during FY 2020 and restarted in FY 2022.

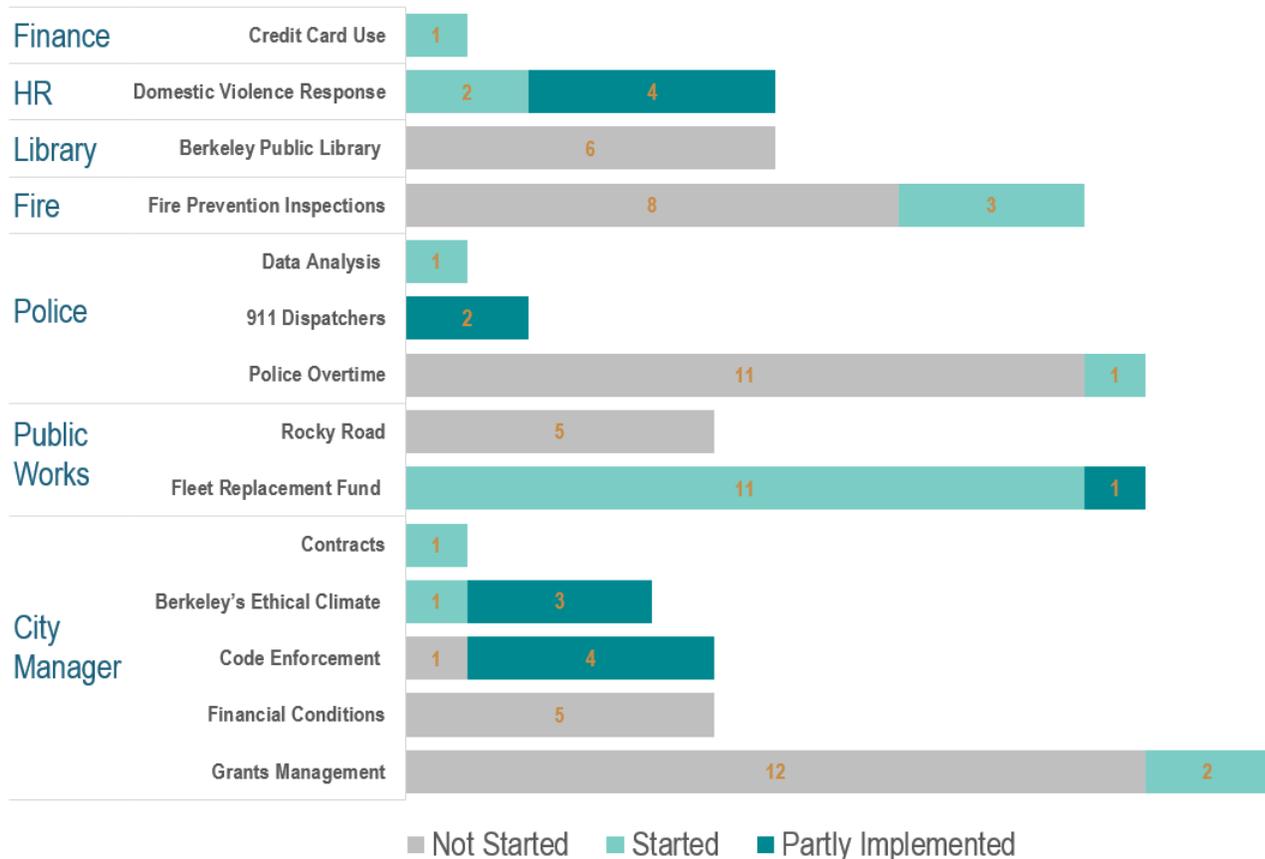
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# Open Audit Recommendations

In fiscal year 2023, the Auditor’s Office will follow up on 85 open recommendations from 14 audits. We will use the following statuses to report on the implementation of audit recommendations:

- **Implemented:** auditee has addressed the audit risk by completely implemented the recommendation.
- **Partly implemented:** auditee has implemented 50 percent or more of the recommendation.
- **Started:** the auditee has started to address the recommendation but has not reached the 50 percent threshold.
- **Not started:** auditee has not yet taken action to implement the recommendation.
- **Dropped:** the auditee has accepted the risk to the city that the recommendation is meant to address and is unable or unwilling to implement the recommendation. Additionally, all open recommendations will be reported as dropped if they are not implemented within five years of audit issuance.

**As of June 30, 2022, there are 85 open recommendations from 14 audits across seven departments.**



Source: Berkeley City Auditor



# 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 Fiscal Year 2023 Audit Plan reflects the office'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 FY 2023 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. 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. Our expectation is that the City should take no more than two years to implement our audit recommendations.

## 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.

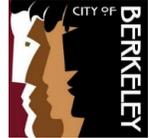


BERKELEY CITY AUDITOR

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<https://berkeleyca.gov/your-government/city-audits>

INFORMATION CALENDAR

July 26, 2022

To: Honorable Mayor and Members of the City Council

From: Jenny Wong, City Auditor *zw*

Subject: City Auditor Fiscal Year 2023 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 the Council when audits are added. In deciding what to audit, our office considers suggestions from the City Manager, staff, the City Council, the Rent Stabilization Board, 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

As required by the City Charter, we are notifying the Council of our annual audit plan. The following plan assumes being fully staffed to conduct these audits. Reductions in our budget will decrease capacity of audit services from our office.

The impacts of COVID-19 are still ongoing and uncertain. In 2020, the City had to quickly adapt to the COVID-19 pandemic and make necessary changes to protect City employees and Berkeley residents. As we exit the emergency phase of the pandemic, the City will likely be developing new policies for a more sustainable future. Therefore, audits that provide oversight and accountability of these policies will be more important than ever. Our work is crucial in ensuring that city services function properly and truly benefit the Berkeley public.

For Fiscal Year 2023, we have identified areas we hope to address in the upcoming year:

- Employee retention (in progress, resumed after being put on hold in FY 2020 due to COVID-19)
- Rent Stabilization Board
- Homelessness
- Follow-up on prior audit recommendations
- Short-term projects

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 FY 2023 Audit Plan reflects our office's 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 the Council to accept those recommendations and request that the City Manager report on their 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 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 2023