

INFORMATION CALENDAR

June 30, 2020

To: Honorable Mayor and Members of the City Council

From: Jenny Wong, City Auditor

Subject: City Auditor Fiscal Year 2021 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, 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.

Emerging COVID-19 risks are both unpredictable and unprecedented, making oversight and accountability functions, like auditing, even more important. The COVID-19 pandemic and decisions made during this time may have lasting economic, social, and public health consequences. There will be more federal and state funding allocated to cities in response to the crisis, which will need proper monitoring. With a host of new initiatives and the need to review existing functions and contracts in a tight budgetary environment, oversight is needed to ensure the City prevents the misuse of public funds.

Now, more than ever, we need to evaluate how the City can best respond to this ongoing crisis and keep residents and employees safe with minimal disruption to operations and services.

For Fiscal Year 2021, we have identified areas we hope to address in the upcoming year:

- Budget analysis
- COVID-19 and disaster response
- Financial conditions
- Follow-up on prior audit recommendations

- Short-term projects

We are currently finishing up the following audits: streets, fleet replacement fund, and library tax. We are deferring our audits of recycling and retention, initiated in fiscal year 2020, due to staffing shortages and the City's need to respond to the COVID-19 pandemic. We plan to pick these audits back up when staffing and resources are available.

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 2021 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 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 2021

Audit Plan Fiscal Year 2021

Inside

Letter from the Auditor

Planned Engagements

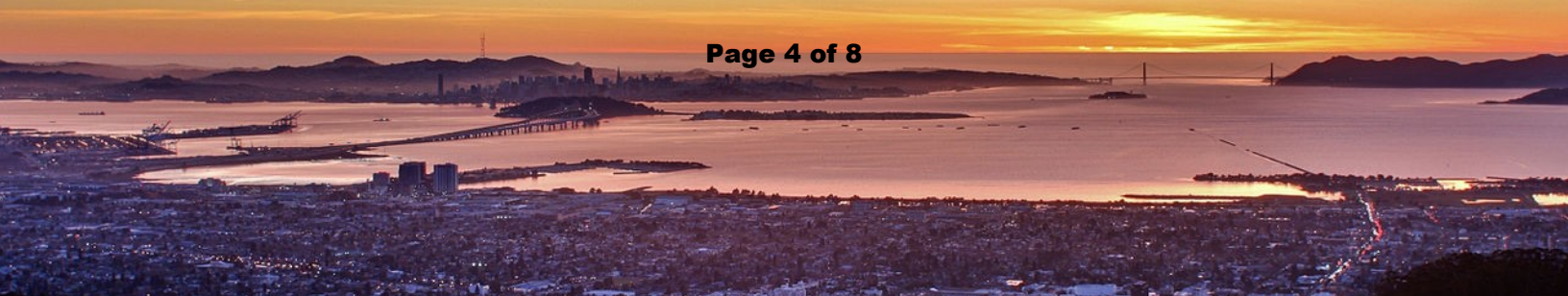
Plan Description

Audit Selection Process

Auditor's Authority



BERKELEY CITY AUDITOR



I am pleased to present the Berkeley City Auditor’s Fiscal Year 2021 Audit Plan.¹ Our office is responsible for conducting performance audits of City functions - deep dives into the workings of our various City programs with the goal of maximizing taxpayer dollars and delivering top-quality services. It is our goal 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, including those from staffing vacancies and budget cuts in response to COVID-19.

In drafting this plan, we considered how we can add the most value to the City while also taking into consideration resource constraints of the City and my department. Emerging COVID-19 risks are both unpredictable and unprecedented, making oversight and accountability bodies, like my office, even more important. The City is facing many changes to operations and services, with decreased revenues coming into the City. Decisions made during this time may have lasting economic and public health consequences.

Our office and the City face unique challenges, but we are also in a unique position to work collaboratively, provide expertise and guidance, and hold the City accountable during this time. Now, more than ever, we need to evaluate how the City can best respond to this ongoing crisis and keep residents and employees safe with minimal disruption to operations and services. By embracing ambiguity and flexibility, and looking at both the short-term and long-term impact of COVID-19 on the organization, our office can help the City emerge from this crisis stronger than ever.

We will continue working to complete the streets, fleet replacement, and library tax audits. My office will analyze the impacts of COVID-19 on our open audits, including considering the fiscal and budgetary impacts. We will ensure that our findings and conclusions take into account the changing situation, and our recommendations are feasible.

We plan to start engagements in the areas of budgeting, COVID-19 and disaster response, and financial conditions. We will continue with our audit follow-ups to ensure that the City is implementing adopted recommendations. Along with producing these reports, we will also be conducting short-term projects in topic areas that will provide timely information to key decision makers on issues that are important to the public and the mission of our office.

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.

Respectfully,

JENNY WONG
City Auditor

¹ We emailed this audit plan to City Council on June 8, 2020 as required by the Berkeley Municipal Code.

Planned Engagements FY 2021

Budget analysis

With decreased revenues to the City, there will be an increased need for objective and independent analysis of how limited funds are allocated throughout the City.

COVID-19 and disaster response

In the wake of COVID-19, Berkeley has faced increased risk to the fiscal and public health of the entire city. Berkeley continues to face risks from wildland-urban fires. As a city, we have the responsibility to mitigate risks to the City through appropriate policies and emergency response plans.

Financial conditions

The Auditor's office will examine the City's financial well-being by calculating financial ratios, analyzing trends, and comparing the results to other similar cities.

Follow-up

The Auditor's office will continue to track and follow-up on all audit recommendations to determine if they are properly implemented.

Short-term projects

In order to be responsive to the needs of the City and the Public, we will be engaging in more short-term projects to provide timely and relevant information and analysis to the City during this unprecedented time.

Ongoing engagements

- Streets
- Fleet replacement fund
- Library tax

Deferred FY 2020 engagements due to COVID-19 impacts

- Recycling
 - Recruitment and retention
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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 2021 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 FY 2021 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 audit recommendations should take two years for the City to implement.

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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