



STAFF REPORT

Meeting Date: July 16, 2019

To: Honorable Mayor and City Council

From: Eduardo Luna, City Auditor

Subject: Annual Audit Work Plan for FY 2019/20.

Attachments: 1. FY 2019/20 Citywide Risk Assessment Model
2. FY 2019/20 Audit Suggestions

INTRODUCTION

This item is submitted for the City Council's consideration of the City Auditor's proposed audit work plan for fiscal year 2019/20. The audit work plan identifies proposed audits for the upcoming year, including work that will be performed in-house and a few external audit projects. In addition, the work plan identifies the City Auditor's activity related to the implementation of the Trust & Innovation Portal. On June 24, 2019, the Audit and Budget Committee Liaisons (CM Friedman and CM Wunderlich) reviewed and provided feedback on a draft annual audit work plan and the results of the citywide risk assessment model. Accordingly, the City Auditor would like to obtain direction on the proposed work plan.

DISCUSSION

Background

On December 20, 2018, the Audit Committee reviewed the staff report, Action Plan for Building the City of Beverly Hills Auditor's Office, which discussed developing a Citywide Risk Assessment model and proposing an Annual Audit Work Plan. The report recommended that the City Auditor develop an annual audit work plan for FY 2019-20. The Audit Committee concurred with the proposed plan and recommendations. On January 8, 2019, the staff report, Action Plan for Building the Beverly Hills Auditor's Office, was presented to the City Council, which concurred with the recommendations.

RISK ASSESSMENT MODEL

Government audit organizations typically publish annual audit work plans that communicate to the public, management, and policymakers proposed audits for the upcoming fiscal year. Audit work plans can be annual audit plans or multi-year audit work plans. It is a best practice to utilize a risk assessment model to identify, measure, and prioritize potential departments, programs, and activities to audit based on the level of risk to the City. The risk model can also incorporate City Council and management input.

Risk assessment is a process of systematically scoring (or rating) the relative impact of a variety of “risk factors,” which are typically fiscal in nature. Other factors that can be considered in the risk model include the potential vulnerability to fraud, management competency, and other risk factors that could impede the achievement of a department’s mission, goals, and objectives. Management completed a seven question self-assessment questionnaire that covered the following:

1. Extent of external public interface
2. Missional critical nature of operations
3. Extent of supporting internal operations
4. Consequences of negative media (reputational risk)
5. Potential loss of cash
6. Performance metrics
7. Regulatory impact on operations

A key component of the risk assessment is the total risk score calculated for each Department’s budget division group. For example, a risk score was calculated for each Fire Department Division as represented in the budget.

FIRE DEPARTMENT
Fire Administration
Fire Prevention Emergency
Response Services
Emergency Medical Services
Fire Community Programs

A total risk score is calculated in order of highest risk score to the lowest by tabulating the information gathered from the questionnaires, revenue, expenditure, and number of full-time

equivalent positions. Weighted scores are assigned to the risk factors. Typically, the top 30 percent of the risk scores are considered high-risk, the middle 40 percent are considered medium risk, and the remaining 30 percent of the risk score are considered low-risk. Below is a risk level table for risk score and project level.

Risk Level	Risk Score	Project Level
High	671 or greater	Health & Safety Personal Integrity, Fiscal
Medium	537 to 670	Economy & Efficiency, Fiscal Transparency
Low	536 or less	Compliance

One general limitation of a budget based risk assessment model is that potential audit objectives are not identified and risk scores for project based audits (e.g. proactive sidewalk maintenance) are not calculated. The risk assessment model was most weighted toward external public interface (25%) and reputational risk (15%). See **Attachment 1** for the results of the Citywide Risk Assessment Model ranked by risk score. **Attachment 1** also include the top five Department Divisions ranked by FTE's, expenditures, and revenues.

Current Audit Resources

For FY 2019/20, the Office of the City Auditor has received funding to hire two principal performance auditors. Job offers have been extended to two individuals, who will join the City by August 2019. As shown below, the Office of the City Auditor has 4,160 available audit hours to conduct performance audits, monitor outside audit engagements, and oversee the Trust & Innovation Portal. Specific outside engagements include overseeing consultants performing work on fire hydrant maintenance, Fiber to the Premises, and Police Department vehicle acquisition.

Based on the organization's budget and staffing, in general, one principal performance auditor can perform two to four performance audits per year. Direct project hours can range from 400 to 800 hours per project depending on audit objective and scope. Most audits would require about 400 hours to complete. If audits have a broad scope and involve multiple departments, audits may take 600 to 800 hours to complete. We should note that that are factors that can impact audit completion dates and total project hours including the: 1) extension of an audit scope to conduct further analysis and due diligence on new items that may arise during the course of a review; and 2) the timeliness of

departments to provide requested data and documentation. We will communicate these circumstances and any project impacts to the City Council if encountered.

Available Audit Hours to Conduct and Oversee Audits

Total Annual Hours per Principal Auditor	2,080
-600 Hours = Vacation, Sick, Holiday, Administrative, CPE, Other	
-140 Hours = Auditors on board August 2019	
Total Available Hours per Principal Auditor (x2)	1,340
Total Available Hours for City Auditor	1,480
Total Audit Hours	4,160

FY 2019/20 Annual Audit Work Plan

Given current audit resources, my recommendation is to undertake five performance audits. Additional audit activity will include overseeing three outside audits, investigating fraud-related complaints, and researching suggestions for improving City government. Based on the risk assessment model, the actual selection of potential audits is based on City Council and management input, risk level, and auditor judgement. A typical work plan can include a combination of low to high risk audits, and specific City Council and management requests. **Attachment 2** has a list of suggested audits from the City Council, City Treasurer, and management.

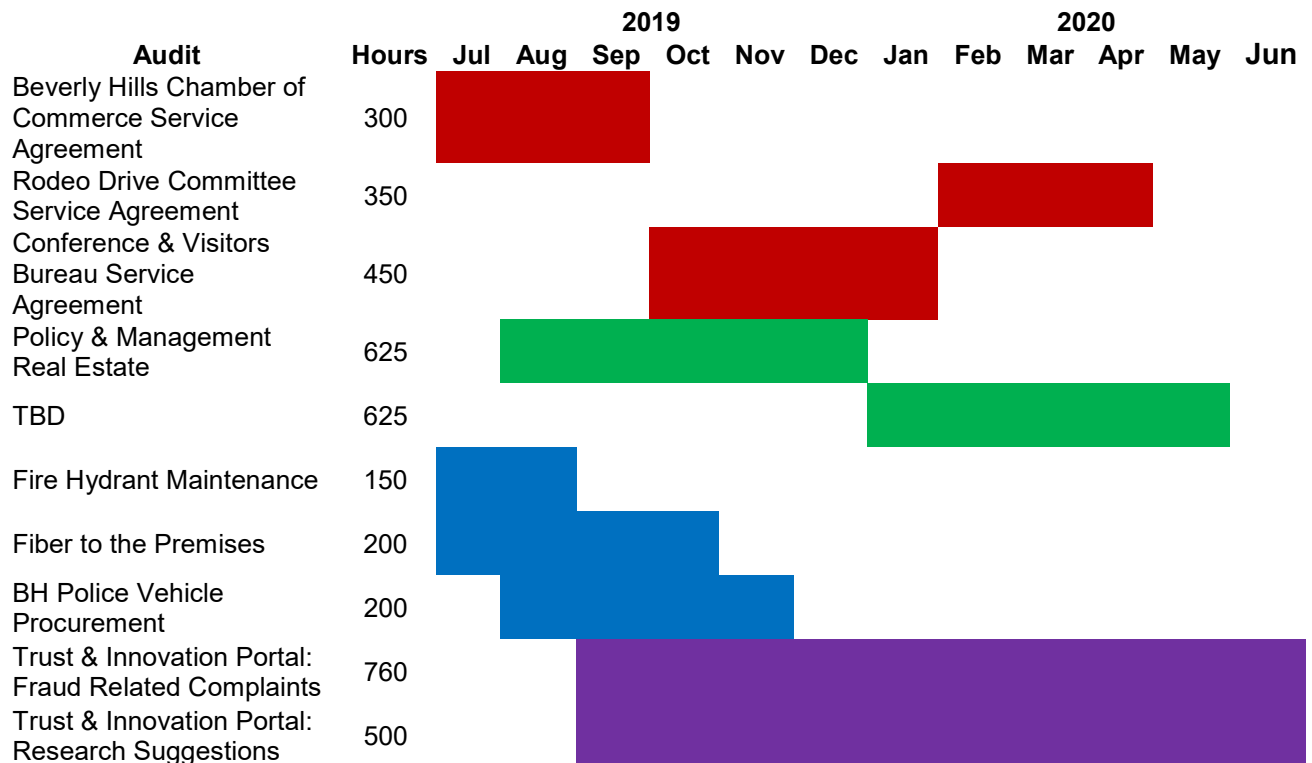
Recommended FY 2019/20 Annual Audit Work Plan

No.	Audit Project	Audit Description	Potential Impact	Audit Type	Hours	Rationale	Risk Level
1.	Beverly Hills Chamber of Commerce Service Agreement	Assess compliance with service agreement, funding activities and municipal code.	Fiscal	Performance	300	Requested	Medium
2.	Rodeo Drive Committee Service Agreement	Assess compliance with service agreement, funding activities and municipal code.	Fiscal	Performance	350	Requested	Medium
3.	Conference & Visitors Bureau Service Agreement	Assess compliance with service agreement, funding activities and municipal code.	Fiscal	Performance	450	Requested	Medium
4.	P&M Real Estate and Property Management	Evaluate internal controls over real estate portfolio and property management.	Fiscal, Economy & Efficiency	Performance	625	Requested	Medium
5.	TBD			Performance	625		

Outsourced Audits							
6.	Fire Hydrant Maintenance	Determine if the City is performing required maintenance and repair of fire hydrants in a timely manner.	Health & Safety, Economy & Efficiency	Performance	150	City Auditor	High
7.	Fiber to the Premises Project	Does the revised project pro forma utilize reasonable assumptions, and capture all expected costs and revenue projections? Is the revised project budget request of \$6.3 million sufficient to complete the full FTTP implementation? Are program expenditures to date reasonable and within expected parameters?	Fiscal	Performance	200	Requested	High
8.	Procurement of Police Vehicles	Determine if the BHPD has an adequate number of police vehicles, including reserve vehicles to meet patrol operation needs. Determine if the City purchases patrol vehicles at the best price.	Fiscal, Economy & Efficiency	Performance	200	Requested	Low

Ongoing Non-Audit Work						
9.	Trust & Innovation Portal: Fraud-related complaints	Investigate allegations of potential fraud, waste, and abuse in City operations	Financial, Personal Integrity	Fraud	760	
10.	Trust & Innovation Portal: Research Suggestions	Research suggestions for improving City government. Non-audit service under Government Auditing Standards	Economy & Efficiency	Other Services	500	
Total Hours					1,460	

Below is an estimated timeline for audit start and completion date.



Next Steps

Once the City Council reviews and provides direction on the annual audit work plan, the audit plan should only be modified under limited circumstances and in consultation with the City Council. Criteria for modifying the annual audit work plan mid-year could include the following circumstances:

1. Health and safety of residents and employees is threatened.
2. Significant fiscal impact to the City's general fund or enterprise funds.
3. Personal integrity of City officials and employees is questioned.

FISCAL IMPACT

There is no direct fiscal impact to carrying out the proposed annual audit work plan. Audit resources have already been budgeted to carry out the annual audit work plan. It is possible proposed audit work can result in future cost savings and/or increased revenue opportunities.

RECOMMENDATION

The City Auditor recommends that the Mayor and City Council review and provide direction on the Annual Audit Work Plan for FY 2019/20.

Eduardo Luna
Approved By

							Expenditure			Revenue			External				Support	Failure to									
Number	Department	Division	Organizational Code	FTE	FTE Score	FTE Weight	Expenditures	Score	Expenditure Weight	Revenues	Revenue Score	Revenue Weight	Public Interface	EPI Weight	Mission Critical	MC Weight	Internal Operations	SIO Weight	to achieve result in negative media	NM Weight	Potential loss cash	PLC Weight	Performance Metrics	PM Weight	Regulation impact	Ri Weight	SCORE
						4.00			8.00			8.00		25.00		10.00		10.00		15.00		7.00		4.00		6.00	
1	Police	Special Operations Division	26	84.07	9.00	36	17,844,567	9.00	72	7,340,000	9.00	72.00	9	225	9	90	9	90	9	135	3	21	0	0	9	54	795.00
2	Community Development	Development Services	46	34.90	7.00	28	8,219,254	9.00	72	16,038,642	9.00	72.00	9	225	9	90	5	50	9	135	5	35	3	12	9	54	773.00
3	Police	Operations Division	25	103.60	9.00	36	26,595,630	9.00	72	1,121,100	5.00	40.00	9	225	9	90	9	90	9	135	3	21	0	0	9	54	763.00
4	Fire	Emergency Medical Services	34	45.54	7.00	28	16,510,672	9.00	72	3,095,150	7.00	56.00	9	225	9	90	7	70	9	135	3	21	0	0	9	54	751.00
5	Public Works	Water Supply & Distribution	60	36.46	7.00	28	20,108,282	9.00	72	37,004,589	9.00	72.00	9	225	7	70	7	70	9	135	3	21	0	0	9	54	747.00
6	Police	Administrative Services	24	37.00	7.00	28	7,418,051	9.00	72	150,050	3.00	24.00	9	225	9	90	9	90	9	135	3	21	0	0	9	54	739.00
7	Fire	Emergency Response Services	33	34.16	5.00	20	12,555,211	9.00	72	38,061	3.00	24.00	9	225	9	90	9	90	9	135	3	21	0	0	9	54	731.00
8	Policy & Management	City Council & Administrative Support	1	13.46	5.00	20	2,641,544	7.00	56	321,717	3.00	24.00	9	225	9	90	9	90	9	135	3	21	3	12	9	54	727.00
9	Community Development	Planning	37	15.65	5.00	20	3,128,524	7.00	56	1,594,223	5.00	40.00	9	225	9	90	5	50	9	135	5	35	7	28	7	42	721.00
10	Police	Administration/Office of the Chief	21	25.62	7.00	28	6,697,472	9.00	72	-	0.00	0.00	9	225	9	90	9	90	9	135	0	0	6	24	9	54	718.00
11	Public Works	Facilities Services	59	14.39	5.00	20	5,374,668	9.00	72	4,194,388	7.00	56.00	9	225	9	90	9	90	7	105	3	21	0	0	5	30	709.00
12	Fire	Community Risk Reduction	32	10.27	3.00	12	3,228,125	7.00	56	1,181,792	5.00	40.00	9	225	9	90	7	70	9	135	3	21	0	0	9	54	703.00
13	Community Development	Transportation Planning	125	7.40	3.00	12	1,768,050	5.00	40	3,032,649	7.00	56.00	9	225	9	90	7	70	9	135	3	21	3	12	7	42	703.00
14	Public Works	Off Street Parking Operations	72	78.65	9.00	36	1,651,913	5.00	40	23,368,443	9.00	72.00	9	225	7	70	7	70	7	105	9	63	0	0	3	18	699.00
15	Finance	Management & Budget Division	8	20.12	5.00	20	3,379,487	7.00	56	88,800	3.00	24.00	9	225	9	90	7	70	9	135	5	35	3	12	5	30	697.00
16	Public Works	Solid Waste	52	21.49	5.00	20	10,725,806	9.00	72	15,440,500	9.00	72.00	9	225	7	70	7	70	7	105	3	21	0	0	5	30	685.00
17	Public Works	PW Administration	50	13.29	5.00	20	2,304,353	5.00	40	68,628	3.00	24.00	9	225	7	70	9	90	9	135	5	35	0	0	7	42	681.00
18	Fire	Fire Administration	31	9.05	3.00	12	2,045,269	5.00	40	475,123	3.00	24.00	9	225	9	90	7	70	9	135	3	21	0	0	9	54	671.00
19	Community Services	Recreation	67	80.84	9.00	36	8,601,792	8.00	64	9,640,447	9.00	72.00	9	225	9	90	3	30	5	75	5	35	3	12	3	18	657.00
20	Community Development	Community Preservation Services	146	9.70	3.00	12	1,667,746	5.00	40	448,157	3.00	24.00	9	225	7	70	7	70	9	135	3	21	7	28	5	30	655.00
21	Community Services	Library	77	72.42	9.00	36	7,072,313	9.00	72	481,050	3.00	24.00	9	225	9	90	5	50	5	75	7	49	3	12	3	18	651.00
22	Policy & Management	Community Filming & Event Permits	40	2.00	3.00	12	281,813	3.00	24	548,713	5.00	40.00	9	225	9	90	7	70	7	105	5	35	3	12	5	30	643.00
23	Public Works	Park Operations	69	22.35	5.00	20	3,723,684	7.00	56	12,482	3.00	24.00	9	225	7	70	9	90	7	105	3	21	0	0	5	30	641.00
24	Public Works	Civil Engineering	124	18.11	5.00	20	3,749,973	7.00	56	5,019,135	9.00	72.00	7	175	5	50	9	90	9	135	0	0	3	12	5	30	640.00
25	Human Resources	Risk Management	6	5.57	3.00	12	13,594,178	9.00	72	246,000	3.00	24.00	7	175	9	90	9	90	7	105	3	21	5	20	5	30	639.00
26	Community Services	Human Services	88	3.90	3.00	12	14,351,315	9.00	72	235,637	3.00	24.00	9	225	9	90	5	50	7	105	3	21	3	12	3	18	629.00
27	Policy & Management	Communications & Marketing	83	4.16	3.00	12	1,115,109	5.00	40	219,719	3.00	24.00	7	175	9	90	7	70	9	135	3	21	3	12	7	42	621.00
28	Information Technology	Information Technology	15	23.33	5.00	20	7,225,298	9.00	72	299,200	5.00	40.00	7	175	9	90	9	90	7	105	0	0	0	0	3	18	610.00
29	Public Works	Street Maintenance	76	20.55	5.00	20	2,012,862	5.00	40	-	0.00	0.00	9	225	7	70	9	90	9	135	0	0	0	0	5	30	610.00
30	Public Works	Urban Forest	56	3.10	3.00	12	1,683,898	5.00	40	12,000	3.00	24.00	9	225	7	70	7	70	9	135	0	0	0	0	5	30	606.00
31	Public Works	Customer Service	95	6.48	3.00	12	8,677,011	9.00	72	-	0.00	0.00	9	225	9	90	9	90	5	75	3	21	0	0	3	18	603.00
32	Community Development	Rent Stabilization	147	6.02	3.00	12	1,057,747	5.00	40	-	0.00	0.00	9	225	7	70	5	50	9	135	3	21	3	12	5	30	595.00
33	Human Resources	Human Resources	4	14.10	5.00	20	3,139,532	7.00	56	-	0.00	0.00	7	175	9	90	9	90	7	105	0	0	7	28	5	30	594.00
34	Fire	Fire Community Programs	35	0.03	0.00	0	65,192	3.00	24	-	0.00	0.00	9	225	9	90	5	50	9	135	3	21	0	0	5	30	575.00
35	Policy & Management	Real Estate & Property Management	122	2.61	3.00	12	1,614,880	5.00	40	-	0.00	0.00	9	225	7	70	7	70	7	105	3	21	3	12	3	18	573.00
36	Public Works	Parking Meters	74	7.53	3.00	12	3,917,351	7.00	56	-	0.00	0.00	9	225	7	70	5	50	5	75	9	63	0	0	3	18	569.00
37	Community Services	Park Rangers	68	16.36	3.00	12	2,083,631	5.00	40	150,000	3.00	24.00	9	225	7	70	7	70	5	75	3	21	3	12	3	18	567.00
38	Community Services	CS Administrative Support	79	9.24	3.00	12	1,353,651	5.00	40	5,000	3.00	24.00	9	225	7	70	5	50	5	75	5	35	3	12	3	18	561.00
39	Policy & Management	Tourism & Marketing	13			0	8,170,870	9.00	72	-	0.00	0.00	7	175	9	90	5	50	7	105	3	21	3	12	3	18	543.00
40	Policy & Management	Emergency Management	41	2.78	3.00	12	669,590	3.00	24	74,450	3.00	24.00	7	175	9	90	5	50	5	75	3	21	3	12	9	54	537.00
41	Information Technology	Cable TV	9	9.70	3.00	12	1,102,486	5.00	40	722,000	5.00	40.00	7	175	7	70	9	90	5	75	0	0	3	12	3	18	532.00
42	Policy & Management	Economic Sustainability	11	1.11	3.00	12	312,471	3.00	24	16,903	3.00	24.00	7	175	9	90	5	50	7	105	3	21	3	12	3	18	531.00
43	Finance	Finance Administration	3	5.50	3.00	12	1,409,131	5.00	40	-	0.00	0.00	5	125	9	90	7	70	9	135	0	0	3	12	5	30	514.00
44	Finance	General Accounting	16	14.04	5.00	20	2,366,845	5.00	40	-	0.00	0.00	5	125	9	90	9	90	7	105	0	0	0	0	7	42	512.00
45	City Attorney	Legal Services	5	0.00	0.00	0	3,631,068	7.00	56	-	0.00	0.00	9	225	9	90	3	30	3	45	0	0	3	12	7	42	500.00
46	Public Works	Wastewater Disposal Services	54	10.49	3.00	12	4,961,828	7.00	56	13,253,000	9.00	72.00	3	75	7	70	3	30	7	105	3	21	0	0	7	42	483.00
47	Community Development	CD Administration	36	1.25	3.00	12	617,970	5.00	40	868,484	5.00	40.00	5	125	5	50	5	50	5	75	5	35	5	20	5	30	477.00
48	Public Works	Project Administration	123	4.70	3.00	12	1,079,180	5.00	40	-	0.00	0.00	5	125	5	50	9	90	7	105	0	0	3	12	7	42	476.00
49	Public Works	Fleet Services	85	11.20	5.00	20	829,321	5.00	40	442,606	3.00	24.00	3	75	7	70	9	90	5	75	5	35	0	0	7	42	471.00
50	City Clerk	City Clerk Administration	14	2.30	3.00	12	448,616	3.00	24	690	3.00	24.00	5	125	5	50	5	50	5	75	5	35	5	20	5	30	445.00
51	City Clerk	Municipal Elections	91	1.25	3.00	12	350,253	3.00	24	412	3.00	24.00	5	125	5	50	5	50	5	75	5	35	5	20	5	30	445.00
52	City Clerk	Public Records Request	94	0.70	3.00	12	115,335	3.00	24	754	3.00	24.00	5	125	5	50	5	50	5	75	5	35	5	20	5	30	445.00
53	City Clerk	Public Meetings & Outreach	92	1.00	3.00	12	296,873	3.00	24	-	0.00	0.00	5	125	5	50	5	50	5	75	5	35	5	20	5	30	421.00
54	City Clerk	Records Management	9																								

Category	Potential Audits	Risk Level
Health and Safety	Cybersecurity Threats	High
	Earthquake and fire preparedness	High
	Safety & Traffic Enforcement on selected streets	High
Fiscal	Fiber to the Premises	High
	Outside support groups: RDC, BHCC, and CVB	Medium
	Setting citywide standards for appropriate department use of public funds/purchases	Medium
	Citywide Revenue Collection	Medium
	High value contracts	High
	Workers compensation	Medium
	Farmer's Market cash collections	Medium
	Finance Department fiscal policies	Medium
	P&M Real Estate and Property Management	High
	Public safety overtime—limitations, shift trades, mutual aid, reimbursement for special events	Medium
Economy & Efficiency	Citywide Fleet Review—servicing of vehicles, take-home vehicles, fuel policy, funding, number of vehicles/mileage, disposal, and leasing versus buying.	Medium
	Review of recruitment process-- automation, electronic personnel actions, best practices, identify bottlenecks and ways to speed up the process.	Medium
	Citywide special event process	Low
	Street and sidewalk maintenance	Medium
	Grants management	Medium
	Citywide Risk Management	Medium
	Procurement process	Medium
	Centralizing billing and invoices	Medium
	Community risk reduction fire inspection billing process	Low
	Water treatment plant remediation	Medium
Transparency	Operation of City jail	Medium
	Public notification process	Low
	Compliance with the Brown Act	Medium
Compliance	Newspaper advertisement	Low
	Enforcement	Medium
	Permitting	Medium
	Conditional Use Permits	Medium
	Joint Powers Agreement with School District	Medium
	BHPD Body Camera Use	Medium