

**City of Stockton
Office of the City Auditor
Annual Audit Plan for 2009-2010**

Audits in Progress:

- Overtime – Documentation
- Fire Payroll System
- Internal Control Impacts of Staffing Reductions

New Audits for 2009-2010:

- Overtime Eligibility
- Construction & Recycling Permits
- Sub-Recipient Monitoring of Federal Funds
- Capital Projects Reimbursements
- Mutual Aid – Fire Cost Recovery
- Central Parking District
- Public Safety Statistics
- Impact of Staffing Models on Overtime Usage
- Alarm Permits
- Federal Stimulus Funds

Limited Scope Audits (Designed to answer narrowly focused questions):

- Election Costs
- Contract Management
- Daily Cash Deposits
- Disbursements

Management Action Plan Follow-up

Revenue Auditing

External Audit Coordination

Ethics/Fraud Hotline

Technical Assistance to Departments, Boards, Committees and Council

Peer Review

AUDITS IN PROGRESS AT JUNE 30, 2009:

Overtime – Documentation (planned reporting August 2009)

Controlling overtime costs can help the City operate within the approved budget. The objective of this audit is to determine if overtime is being pre-approved, and properly documented.

Fire Payroll System (planned reporting August 2009)

Due to complexities in the compensation structure for the Fire Department, the City's main payroll program is unable to process and calculate pay for firefighters. We are evaluating the system of internal controls and compliance with terms of the MOU.

Internal Control Impacts of Staffing Reductions (planned reporting March 2010)

The first phase of this work began as a result of the City's Voluntary Separation Program (VSP). Our office recognized that vacancies in the City workforce could have a negative impact on the formal and informal systems of internal control. In the work already completed, our office surveyed departing employees, conducted interviews of some of those employees, and communicated issues to management. In the second phase of this audit, our objectives will be to evaluate the impact of VSP PERS incentives on internal controls, and to evaluate internal control impacts in the City's major processing cycles resulting from additional vacancies that will be occurring over the first six months of the 2009-10 fiscal year. We will also evaluate proposed reorganizations of departments to determine if internal controls will be adversely impacted by planned changes in the organizational structure.

NEW AUDIT ASSIGNMENTS:

Overtime Eligibility (planned reporting October 2009)

In gathering background data for our audit of overtime documentation, we found that a seemingly small number of City employees are exempt from overtime. In this audit, we will determine what process the City uses to evaluate whether a given employee should be exempt from overtime compensation, and if there might be an opportunity to reduce overtime costs by more closely applying the exemptions allowed.

Construction & Recycling Permits (planned reporting October 2009)

During 2008-09, our office assisted Public Works by conducting site audits of companies that applied to be certified centers for the recycling of construction materials. Some companies were approved on a conditional basis, due to a lack of necessary documentation. We will perform additional testing of those companies during 2009-10 to determine if they meet the criteria for approval.

Sub-Recipient Monitoring of Federal Funds (planned reporting October 2009)

The Housing Department has requested assistance in monitoring the financial reporting requirements of organizations that are sub recipients of federal funds. We will examine financial reports from each of the organizations and determine if the reports are in compliance.

Capital Projects Reimbursements (planned reporting December 2009)

We will examine reimbursements for select capital projects to determine if they are accurate and timely.

Mutual Aid – Fire Cost Recovery (planned reporting March 2010)

During our current audit of the City's Fire Payroll system, we were asked to expand our scope to examine the process for recovering costs when Fire Department personnel respond to calls for mutual aid. We did not expand the scope of that audit, but recognize the value in determining if the City is recovering costs and if those funds are being accounted for properly.

Central Parking District (planned reporting March 2009)

Central Parking District generates approximately \$5 million in revenue annually. A significant amount of that revenue is in cash. We will examine the different systems that generate revenue, evaluate controls over the revenue, and account for monthly parking agreements.

Public Safety Statistics (planned reporting May 2010)

In this audit, we will review internal and external criteria for counting and classifying public safety statistics. We will then audit the City's reported statistics to determine if activity is being reported accurately, and in compliance with relevant criteria.

Impact of Staffing Models on Overtime Usage (planned reporting August 2010)

In our current audit of overtime documentation, we have seen overtime usage that may be the result of staffing models. In this audit, we will look at select staffing models throughout the City to determine if there ways to reduce overall operating costs without negatively impacting service delivery.

Alarm Permits (planned reporting June 2010)

Stockton Municipal Code sets forth rules for burglar alarms within the City limits. There are fees for alarm permits. This audit will focus on procedures for ensuring all alarms in the City have the required permit and that the fees have been received and processed.

Federal Stimulus Funds (ongoing, with summary reporting in our quarterly newsletter and planned final reporting June 2011)

Though the City does not yet know how much or for what purpose, there is no doubt the City will receive some federal stimulus funds. Those funds come with new levels of required accountability and transparency. Specific

rules for auditing stimulus funding are not yet set, but we do know that real time auditing is expected. This means evaluating internal control systems through which stimulus funds will flow, identifying any weaknesses and following up on corrective action in advance of stimulus funds being handled. We expect that centralized systems such as payroll, purchasing, and accounts payable will need to be evaluated. We will also need to evaluate internal controls in each of the operating departments that receive stimulus funds.

LIMITED SCOPE AUDITS (Designed to answer narrowly focused questions):

Contract Management (planned reporting December 2009)
Have contract managers been assigned to all City contracts?

Daily Cash Deposits (planned reporting May 2010)
Cash is received in a number of places throughout the City. Daily receipts are required to be deposited on a daily basis, unless the Administrative Services Department has approved a variation in deposit timing. We will review deposit activity to determine if funds are being remitted as required.

Disbursements (interim reporting through the year, with a final report June 2010)
Did the City receive needed goods or services in exchange for payments made? (This may be done multiple times throughout the year.)

Election Costs (planned reporting August 2009)
The County charges the City for costs of operating City elections. We will determine if the City has been charged it's fair share of election costs.

REVENUE AUDITING (ongoing, with summary reporting in the quarterly newsletter):

The City contracts with an outside vendor for revenue auditing services. If the Office of the City Auditor is able to identify misallocations or underreporting by or before the time the contractor does, the City is able to save audit fees, which can be a substantial percentage of the underlying tax. Sales tax continues to be our focus, but other revenue sources may be examined.

EXTERNAL AUDIT COORDINATION (ongoing, with the expectation that the City's financial statements will be issued by December 2009):

Our office manages the contract with the commercial audit firm that performs the financial audit of the City's financial statements.

MANAGEMENT ACTION PLAN FOLLOW-UP (August 2009):

Our office maintains a database of all open findings. Each quarter, we ask departments for a status report. We verify implementation of those findings that management reports as being corrected. On an annual basis, we report the status of audit findings to the City Council.

TECHNICAL ASSISTANCE TO DEPARTMENTS, BOARDS, COMMITTEES AND COUNCIL (ongoing):

Our office allocates time each year to offer limited technical assistance upon request. These requests should take no more than a few hours each, and generally do not result in a formal report.

ETHICS/FRAUD HOTLINE (ongoing, with summary reporting in the quarterly newsletter):

Use of Ethics/Fraud Hotlines is increasing in public and private sector organizations. These hotlines are not just for reporting fraudulent behavior. Hotlines can be used to report wasteful practices or abuse. Hotlines can deter bad behavior. They also serve as a mechanism for employees to seek guidance when asked to do something they think may be unethical.

PEER REVIEW (September 2009)

Our office follows Government Auditing Standards. Those standards require an independent peer review of our work every three years. Our most recent three year period ended June 30, 2009. In September, auditors from Denver and the Orange County Transportation Authority will be in our office to determine if our office is in compliance with Government Auditing Standards. Results will be presented to the Audit Committee.