



Date: June 16, 2020

To: Berkeley City Council

From: Jenny Wong, City Auditor *JW*

Re: FY2021 Budget Adjustment for City Auditor's Office

Recommendation

The City Auditor's Office underwent budget cuts during the Great Recession and have not regained funding. We are already operating on a reduced budget, and cuts would significantly impact core audit services. However, given overall citywide budget shortfalls, I am recommending over \$130,000 salary savings from FY20 to the General Fund and an additional 10 percent reduction to our FY2021 budget. To offset some of the loss of one FTE, I am requesting that two of my underfilled budgeted positions in performance audit be filled at that budgeted classification. This would result in a 20 percent reduction in performance audits. Without fully filling the two budgeted performance audit positions, there would be a 40 percent reduction in performance audits.

Background

As an independent Office, the City Auditor's Office's budget process is different from other departments. As codified in BMC2.24.040, our Office, similar to City Council, is exempt from targeted savings policies absent specific separate Council action. The City Charter also states that sufficient funds shall be provided to carry out the responsibilities of the Audit function.

The City Auditor's Office provides essential services in several ways. The Performance Audit Division prepares objective and timely information for Council and the public to ensure that public funds are spent effectively, efficiently, and equitably. Our audit reports provide financial savings, transparency, and accountability to improve city operations. An example of financial savings is the recent collection of \$1.3 million in city revenues following the implementation of audit recommendations surrounding business license tax collection. Other significant contributions from the Office include audits of city reserves, assessment of unfunded liabilities, cash handling, and 911 communications center staffing.

The Payroll Audit Division fills the critical role of ensuring that payroll, the City's major expenditure, is correct and in compliance with regulatory laws. As an independent body, Payroll Audit reviews and evaluates the City's payroll records to verify that they are accurate and free of fraud. Payroll Audit's independent review of the payroll records helps departments improve the quality of work they submit for paying city employees. Auditing Employee Transaction Forms (ETFs) ensures that information such as employees' wages and benefits is entered correctly into the payroll system. Recent auditing of ETFs found that for the past year, an average of 30 percent of forms had errors. Depending on the pay period, the range of errors was between 7 and 63 percent. Auditing of ETFs can catch incorrect salary

amount, salary step, PERS reclassification (PEPRA vs classic), tax withholding, union affiliation and other data that would result in under/over payment and/or incorrect classification. Payroll Audit is also responsible for ensuring the accurate reporting of employees' wages to the CalPERS retirement system. If errors are not caught, this could result in employees not receiving proper retirement benefit. Additionally, the division is responsible for enrolling employees in health benefit plans to ensure the City complies with state and federal laws.

Current Situation

As we reported recently, the COVID-19 pandemic and decisions made during this time may have lasting economic, social, and public health consequences.¹ Emerging COVID-19 risks are both unpredictable and unprecedented, making oversight and accountability functions, like auditing, even more important. There will be more federal and state funds 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, the City needs the Auditor's Office 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.

The City Auditor's Office is already operating on a stripped down budget due to cuts that went into place during the Great Recession and were never added back. Prior to that recession, the Office had 15 FTEs. Historical budget data shows that during the recession and its aftermath, the Office was reduced to 13 FTEs. This happened during the period of FY2006-2012. This was a large reduction in staffing for this Office and cut the staffing to a stripped down operational level to produce audit reports and catch payroll errors. While the FTEs for the entire city increased from FY2014-2020 by 10 percent, the Auditor's Office saw an increase of only .5 FTE in 2015, or a 3.7 percent increase to take on additional work from a payroll clerk from another department. A budget request for FY2020-2021 to increase staffing by 1 FTE to conduct auditing of contracts and to restore some staffing was unfortunately not approved.

Additionally, the City Auditor's Office is quite different than many city departments in that over 90 percent of our budget is allocated to personnel costs. The Office has no large contracts or capital projects, nor do we have contracts or projects that we could cut or defer that would amount to any substantial savings. In addition, the small non-personnel portion of our budget includes Charter-required auditor trainings, mandatory internal service fees, and supplies that would be impossible to reduce substantially.

Proposal and Impacts to Consider

Operating under a skeleton budget means any significant reductions would be a cut to core audit services for the City of Berkeley. In order to achieve a budget reduction of 10 percent, we will need to reduce our

¹ <https://bit.ly/34UViL4>

non-personnel budget by 37 percent. The majority of the cuts, however, will come from a reduction in our personnel expenditures with salary savings from one vacancy and two underfilled positions.

These budget reductions will significantly decrease our office's capacity to conduct oversight and accountability work. I will take on some of the responsibilities of the Audit Manager position that will be underfilled. We would see a 20 percent reduction in performance audit work per year. To offset the loss of one FTE and a further reduction in auditing capacity, I propose that two of my underfilled budgeted positions in performance audit be filled at that budgeted classification. Without fully filling the two budgeted performance audit positions, there would be a 40 percent reduction in performance audits. Additionally, cuts to our training budget will reduce my staffs' ability to receive high quality audit training.

FY 2021 Adjusted Budget \$2,314,392			
Program/Item	Proposed Deferral	Proposed Deferral Running Total	Cumulative % Reduction
Training, travel, equipment, supplies	\$28,000	\$28,000	1.1% (37% of non-personnel)
Underfill Audit Manager with Senior Auditor position in Performance Audit	\$52,000	\$80,000	3.1%
Underfill Auditor II with Accounting Technician position in Payroll	\$20,000	\$100,000	3.9%
Temporary vacancy of Auditor I position	\$160,000	\$260,000	10.1%

BUDGET

Adjusted Fiscal Year 2021



BERKELEY CITY AUDITOR



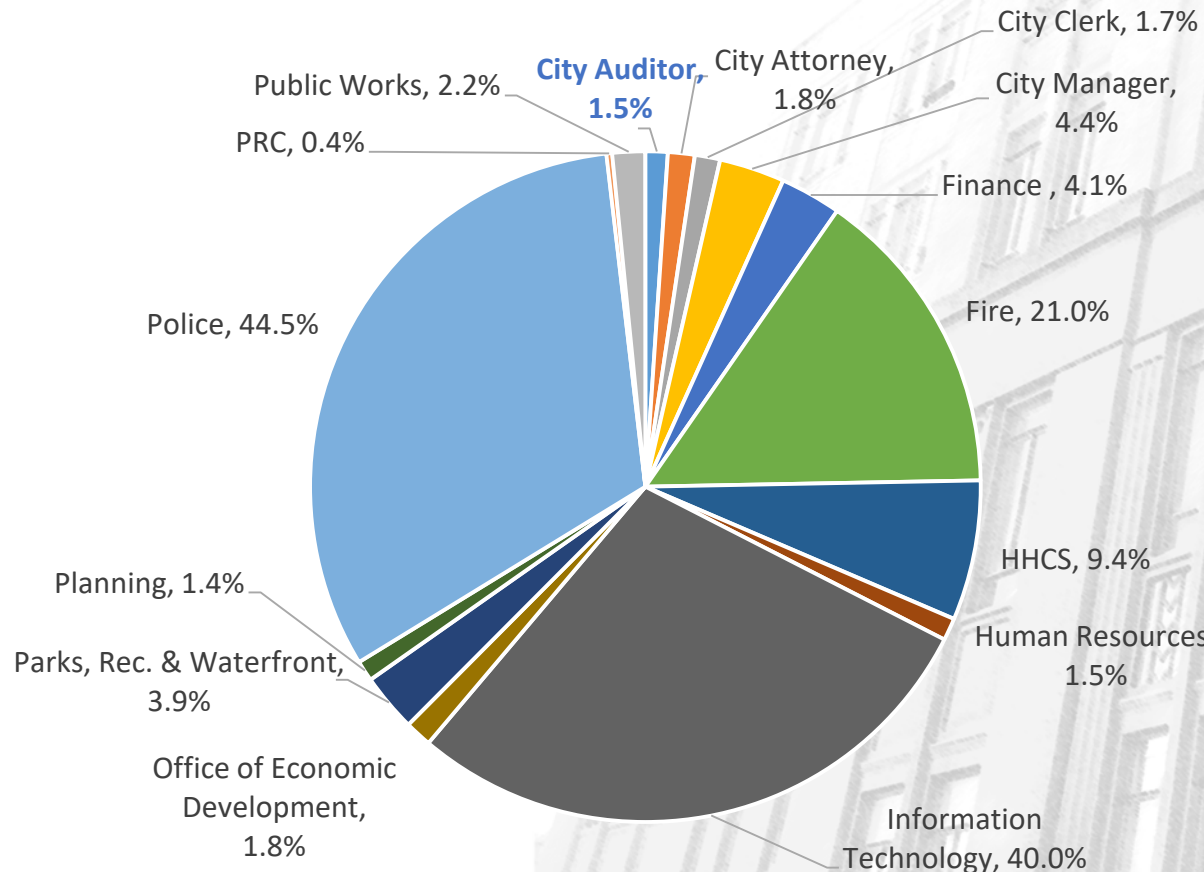
CITY CHARTER AND BMC

BMC2.24.040 states that the City Auditor's Office is exempt from targeted savings policies absent specific separate Council action. The City Charter also states that sufficient funds shall be provided to carry out the responsibilities of the audit function.



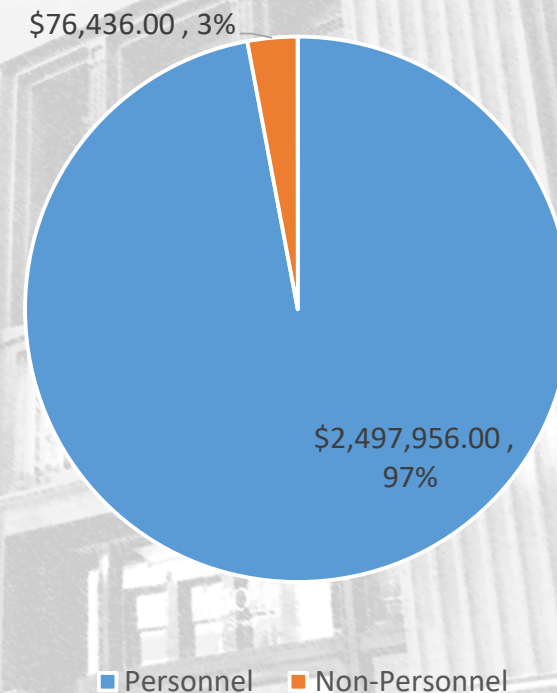
FY2021 ADOPTED BUDGET*

General Fund By Department



* Excludes internal service fund charges

City Auditor Budget[†] by Expenditure



[†] This accounts for 0.54% of FY2021 budget appropriations.

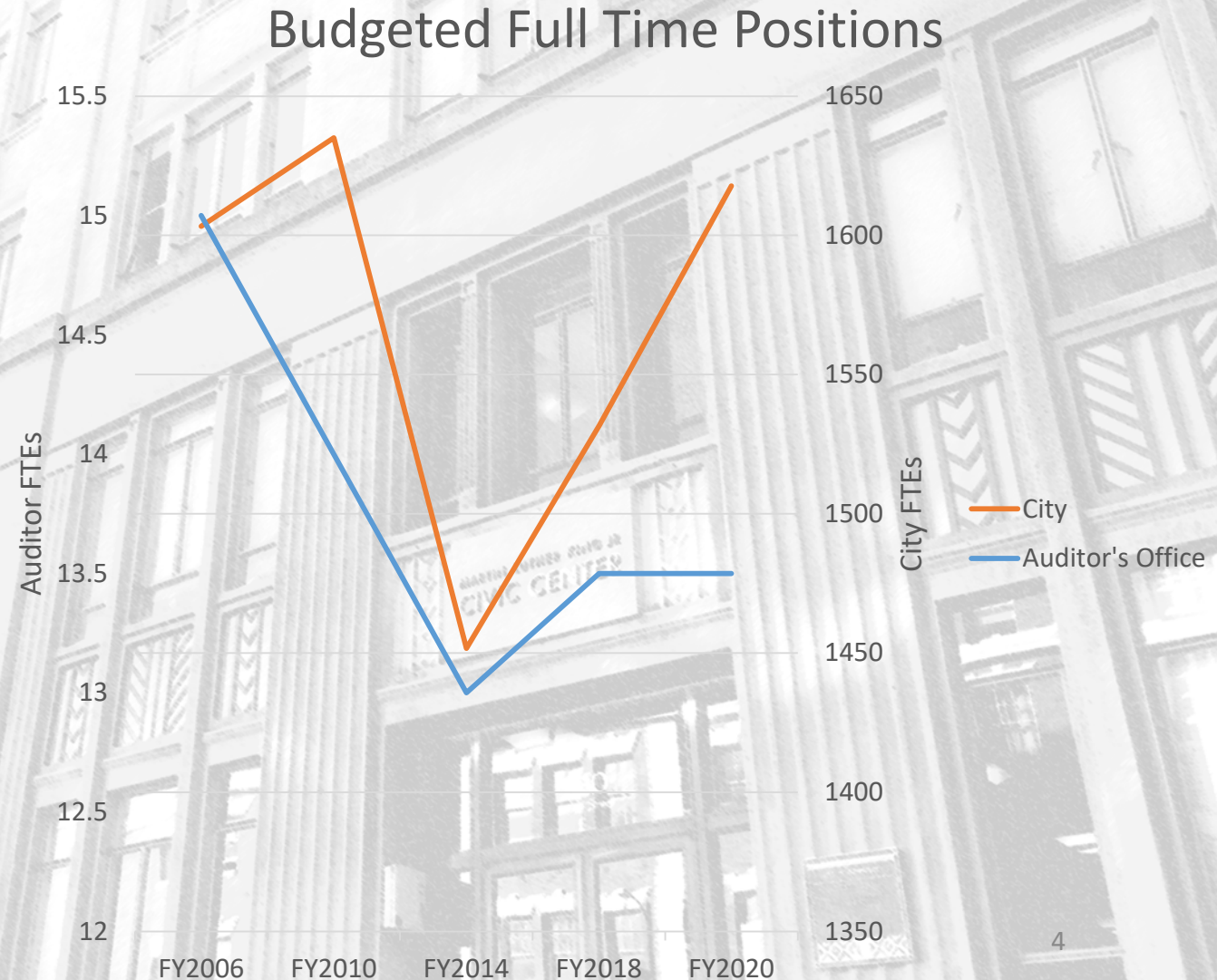


STAFFING

The Auditor's Office lost two FTEs after the 2008 recession; only 0.5 was restored

There is 1 vacancy now

- 15 FTEs in 2006
- 13.5 FTEs in 2020





DEFERRAL BY NUMBERS

FY 2021 Adjusted Budget \$2,314,392

Program/Item	Proposed Deferral	Proposed Deferral Running Total	Cumulative % Reduction
Training, travel, equipment, supplies	\$28,000	\$28,000	1.1% (37% of non-personnel)
Under-fill Audit Manager with Senior Auditor position in Performance Audit	\$52,000	\$80,000	3.1%
Under-fill Auditor II with Accounting Technician position in Payroll	\$20,000	\$100,000	3.9%
Vacancy of Auditor I position	\$160,000	\$260,000	10.1%



IMPACTS – PAYROLL AUDIT

Continuing Services

- Reviewing and evaluating the City's payroll records to verify that they are accurate and free of fraud
- Auditing of Employee Transaction Forms (ETFs) to ensure information is entered corrected into the payroll system
- Reporting of employees' wages to the CalPERS retirement system
- Enrolling employees in health benefit plans



IMPACTS – PERFORMANCE AUDIT

Continuing Services[‡]

- Planned audits of budget and financial conditions
- Short-term reports

Impacted Services

- Decrease oversight and accountability work
 - With fully filled Senior Auditor positions a 20% reduction in audits
 - With under-filled Senior position a 40% reduction in audits
- City Auditor to take on most Audit Manager responsibilities in the interim
- Lack of travel will reduce ability to receive high quality audit training

[‡] Contingent on the ability to fully fill Senior Auditor positions.