

From: Ann Marie Hogan

Subject: RE: LWV Riverside/Berkeley City Government Question

I am delighted to learn that Riverside is considering improving the independence of their existing audit function. This should help the office become more effective, and, if enshrined in the City Charter, or at least in municipal code, will help prevent some future City Manager from eliminating the office (which often happens with auditors who can be hired and fired by the City or County Manager).

Government Audit Standards are issued by the U.S. Comptroller General and the Government Accountability Office - GAO, the legislative audit arm of Congress - and they are very specific about the necessity to ensure independence.

As it happens, I am on the Advocacy Committee for the Association of Local Government Auditors (ALGA). Back when I was chairing the committee I made two presentations to the San Diego City Council to help them decide on ballot language when they were advised (by outside auditor/investigators) that their audit function should be changed so that it could follow Government Audit Standards and be more independent.

I am still the contact for California for the committee, and so I'd be happy to make sure that we write a letter to the League and/or the Charter Review committee, and also to send a speaker.

You can learn more about ALGA on their [web site](#). This [brochure](#) is also helpful.

See the [GAO](#) and the "yellow book" (our audit standards).

In answer to the Riverside's League questions:

Did Berkeley create its independent auditor's office because of a specific incident or trend? If there was a problem, has it been corrected or alleviated by the independent office?

The Berkeley Auditor was set up in the original City Charter - it's the oldest Charter position in Berkeley. It was set up originally as a Controllorship function, with all checks and all contracts to be signed by both City Manager and City Auditor.

In the early seventies (or so) performance auditing was established at the federal government level, and because local governments were starting to get a lot of federal grants and so were in need of much more oversight, cities such as Berkeley began retrofitting their existing "audit" functions to start doing actual audits.

There was no "right to audit" clause in the Charter, the Council put a measure on the ballot in 1998. Section 61 of the City Charter contains both the old "controllorship" language and the new language.

Do citizens trust the office to provide accurate and unbiased reports and analysis?

I believe they do. Especially since we issued our report on unfunded pension liabilities, even those stakeholder groups who are historically very hostile to City staff and suspicious of their statements have publicly expressed confidence in our work.

Do you think the office improves transparency? Efficiency?

There's no question that there is increased transparency because my reports go to Council and are posted on the web site (unlike most reports of auditors who report to management).

I try to do some efficiency-oriented audits each year, some fraud-prevention work, and some "Transparency" work such as the pension benefits audit and the streets audit. I'm presenting my annual report to Council on Tuesday, and it talks about what we accomplished last year.

My [website](#) has recent reports.

Do citizens feel comfortable working with the office and bringing forward any complaints about fiscal management?

Well, I do get many complaints and suggestions! If I count up the citizen audit suggestions and complaints and add them to the list of audit suggestions from City staff, it's in the hundreds.

Ann-Marie Hogan
City Auditor
City of Berkeley
2180 Milvia Street, 3rd floor
Berkeley, CA 94705
(510) 981-6750

From: Mike Taylor

Subject: Re: Riverside, CA/Office of Independent Auditor Proposal

I'm honored that you would ask for my comments about changes to your City's charter to create a City Council appointed City Auditor. Hopefully my input will be of use to you and the City.

Following are my comments on the questions you have raised, along with a few additional thoughts.

When Stockton created your office in 1994, was it because of a reaction to problems with auditing or was the Council looking to generally improve its City government?

Your question is a bit of a twist on the usual question. People usually want to know if the office was created following a major fraud or other scandal. The answer to that is no.

For some years before our office was created, there was an audit function in the Finance Department with two auditors. Originally, their work focused on auditing for revenue (e.g. business license, transient occupancy tax, etc.). At some point, the Finance Director had them stop doing revenue audits and moved to something like internal audits.

Because his office was doing audits, the Finance Director was able to persuade the City Council to make him a City Council appointee in order to create independence between auditing and the City Manager. With turnover in the City Manager position, the new City Manager proposed returning Finance to City Manager control and creating a City Auditor position that would report to the City Council.

Do citizens trust the office to provide accurate and unbiased reports and analysis?

As far as I know, they do. Certainly their elected representatives do. The local press and the civil grand jury trust our work and have been complimentary.

Also, our office undergoes a peer review every three years, as required by Government Auditing Standards. Auditors from around the country audit our procedures and examine samples of our audit work to determine if we are following the standards. Their audit of our office adds credibility to the reports we issue.

Do you think the office improves transparency? Efficiency?

We do improve transparency. Our reports are public documents and they are discussed in public meetings. Many of our findings point out the need for improved transparency, and we track findings until corrective action is taken.

Much of our work is directed at improving efficiency. When we recommend improvements in internal control, it is not to add a layer of bureaucracy. Good internal controls reduce cost by reducing risks and errors that are costly to correct. A good example of work directed at efficiency would be our audits in the Library system.

Do citizens feel comfortable working with the office and bringing forward any complaints about fiscal management?

On this point, an office structure like Berkeley will outshine ours. We don't have all that much contact with the general public. We work primarily with their elected representatives. I also worked in Roanoke, Virginia where the audit structure matched the Stockton organization. The same was true there.

Our office did engage the public concerning the City's budget and budget priorities two years ago. Working with students from UOP, citizens participated in focus groups, and we conducted a broad based on-line survey. We had good citizen participation.

Additional comments:

Creating or significantly modifying an audit function following a financial scandal is not the best timing. It can give the appearance that the function is only there to catch people stealing or doing very bad things. Employees and management are much more on guard, so the effectiveness of the audit function can be lessened.

The last line of your proposed audit charter refers to "Internal Auditor." As you are proposing to structure the function, the auditor would not be an internal auditor, as defined by Government Auditing Standards. Internal auditors report to management. A reporting relationship to the City Council is considered an external auditor.

You may also want to consider requiring a super majority vote of the City Council to fire the City Auditor. My work here has not been impacted by the fact that it only takes 50% plus one to fire me, but having a super majority requirement could strengthen the appearance of independence.

If you have any other questions, or need additional information, please feel free to contact me. Due to furloughs and holidays, our offices will be closed from December 21 until January 3. I'll probably be checking messages from time to time, but not on a regular basis.

Best of luck,
Mike Taylor, City Auditor
City of Stockton
mike.taylor@stocktongov.com
(209) 937-8918