



**Date:** December 6, 2017

**To:** Audit Committee

**From:** City Clerk/Auditor

**Subject:** City Auditor's Annual Report – Fiscal Year 2016-2017

This report outlines the responsibilities of the City Auditor and lists achievements for Fiscal Year (FY) 2016-2017.

**Duties and Responsibilities:**

The City Auditor is primarily responsible for the internal controls necessary to create awareness regarding the proper use and review of public fund expenditures. Under Section 909 of the City Charter, "The City Auditor shall audit and approve all bills, invoices, payrolls, demands, or charges against the City government before payment and, with the advice of the City Attorney, advise the City Council as to the regularity, legality and correctness of such claims, demands or charges."

Section 803 of the Charter states that "The City Manager may prescribe such general rules and regulations as he/she may deem necessary or expedient for the general conduct of the administrative offices and departments of the City under his/her jurisdiction."

To that end, the City Auditor works closely with the City Manager and the Director of Finance for the effective administrative implementation of Council goals in conformity with City, County, State and Federal laws and regulations. The City Auditor consults with the City Manager and the Director of Finance on the general rules and regulations related to disbursements, to ensure that appropriate internal controls and procedures to monitor adherence to them are in place.

The City Auditor also reviews disbursements and related documentation in order to determine that the internal controls are functioning as intended and to increase internal control awareness throughout the City organization. The City Auditor's work in monitoring internal control in the City of Santa Clara includes:

1. Reviewing documents and requests related to the expenditure of public funds, such as:
  - Documentation supporting all vendor warrants, petty cash disbursements and refunds for utility bills;
  - Procurement card statements and documentation;
  - Employee reimbursement requests, including boots, clothing and safety tools;
  - Employee cash advances for purchases and travel;
  - Employee, Council, and Board and Commission travel reports;
  - Payroll and overtime payments;

- Outgoing wire transfers; and
  - Department petty cash and Police Department cash funds.
2. Communicating regularly with departments to increase citywide awareness of internal control issues and correct any procedural errors or misunderstandings.
  3. Remaining current with Government Finance Officers Association (GFOA) best practices that provide professional standards and principals, and training opportunities.
  4. Completing periodic evaluations of relevant internal control procedures to ensure they are adequately designed, properly implemented, and continue to function properly.
  5. Updating the Audit Procedure Manual as needed.
  6. Preparing the Annual Report for Audit Committee and Council, and attending Audit Committee meetings.

#### **Assessment of Auditing Practices:**

Since its creation in 1952, the City Auditor's Mission has been to ensure that internal accounting control procedures and City policies regarding the disbursement of funds are followed. Starting in FY 2013/2014, this has included the development of an Audit Procedure Manual to guide City staff on relevant procedures and policies.

The Audit Procedure Manual was developed using a number of professional and benchmark resources to determine best practices. These included consultations with the City Manager's Office and the Finance Department regarding the nature of existing programs and potential changes. Additionally, the Government Finance Officers Association's (GFOA) *Evaluating Internal Controls* by Stephen Gauthier and *Best Practice: Enhancing Management Involvement with Internal Control* documents provided professional standards and principles. Finally, the benchmarking of peer municipalities in Santa Clara County offered comparison practices in the region.

Throughout the year, the City Auditor's Office is exposed to various auditing inquiries and modifies current practices when necessary to correct or create consistency regarding unwritten policies and procedures. On a yearly basis the Audit Procedure Manual is reviewed in its entirety to reassess it as a whole regarding compliance with current best practices.

#### **Achievements Regarding Administrative Processes:**

- **Updated Information:** Rates and allowances were updated based on the appropriate regulations and guidelines:
  - Mileage Reimbursement Rate: For City employees, Council, and Board and Commission members to reflect updates according to Internal Revenue Service standards.
  - Reimbursement Allowance Adjustments: For boot, clothing and safety tools to reflect changes in Memorandum of Understandings (MOUs).

- **Process Statistics:** The following items were reviewed to determine that recommended payments and requests for reimbursement were within City guidelines, appropriate City expenditures and adhered to auditing procedures:
  - 35,536 payroll checks processed for City employees and Council members.
  - 10,803 vendor warrants, including bills and claims, dental checks, utility refunds, and payroll garnishments.
  - 533 travel expense reports for City employees, Council, and Board and Commission members.
- **Process Resource:** An important part of the auditing function's success is the ability to establish and maintain effective working relationships with those contacted through the process. This starts with providing the proper tools and information to staff on all policies and processes, and includes:
  - Ongoing clarification of policies and procedures regarding reimbursement for employees with regular operating, petty cash, boot, clothing and safety tools, and conference and business travel expenditures.
  - Directing staff to appropriate forms and guidelines.
  - Providing ongoing procedural training as necessary.

Please let the City Auditor's Office know if you have any questions or would like additional information.