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CITY OF OAKLAND



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Office of the City Auditor
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December 19, 2013

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
CITY ADMINISTRATOR
CITIZENS OF OAKLAND
OAKLAND, CALIFORNIA

**RE: AUDIT RECOMMENDATION FOLLOW-UP REPORT FOR THE PUBLIC WORKS
AGENCY - ILLEGAL DUMPING ABATEMENT PROGRAM ACCOUNTS
RECEIVABLES PERFORMANCE AUDIT**

Dear Mayor Quan, President Kernighan, Members of the City Council, City Administrator Santana, and Oakland Citizens.

The Office of the City Auditor (Office) is required to report the status of its audit recommendations to the City Council (Council). In December 2010 the Office released the Public Works Agency - Illegal Dumping Abatement Program (PWA - IDAP) Accounts Receivables Performance Audit.

The audit contained seven recommendations. The Office's follow-up found that all (100%) of the recommendations are closed or no longer applicable. In July 2011, PWA - IDAP was eliminated as a result of the audit. Given this outcome, five of the recommendations are no longer applicable. The Office found that the remaining two recommendations have been addressed by the City Administration and are closed.

Audits are an objective assessment of whether or not public resources are responsibly and effectively managed to achieve intended results. The impact of an audit's recommendations is achieved when the City Administration ensures prompt and proper implementation, increased accountability, and proper safeguarding of City assets. Therefore, it is critical that the City Administration act upon its responsibility to Oakland residents through timely implementation of audit recommendations.

It is only when the City's leadership prioritizes the timely implementation of audit recommendations that the City delivers on our promise to the public - to serve as effective stewards of the City's assets and continue to be deserving of the public's trust. I want to express our appreciation to the City Controller, the Director of Public Works, and staff for their cooperation and commitment to addressing the concerns highlighted in the audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Courtney A. Ruby".

COURTNEY A. RUBY, CPA, CFE
City Auditor

RECOMMENDATION STATUS SUMMARY
PUBLIC WORKS AGENCY – ILLEGAL DUMPING ABATEMENT
PROGRAM ACCOUNTS RECEIVABLES PERFORMANCE AUDIT

OVERVIEW

The Office of the City Auditor (Office) follows up on the recommendations of all audits to determine if they have been implemented by the Office of the City Administrator (Administration) or City Council (Council). Recommendation follow-ups increase accountability and ensure improvements identified by the audits are addressed.

Summary of Process

The purpose of the follow-up process is to assess the implementation status of audit recommendations and when supported, close the recommendations. The Office reviews supporting documentation submitted, conducts interviews and when applicable performs on-site visits. The table below shows the three implementation status categories for recommendations.

Open	The recommendation has not been addressed or implemented.
Partially Closed	The recommendation has been partially addressed and implemented; however, part of the recommendation remains open. Further work is needed to close the recommendation.
Closed	The recommendation has been fully addressed and implemented.

Audit Overview

In December 2010, the Office released the Public Works Agency – Illegal Dumping Abatement Program Accounts Receivables Performance Audit.

The objectives of the audit were to:

- Assess whether or not the Public Works Agency – Illegal Dumping Abatement Program (PWA – IDAP) accounts receivable system has adequate internal controls
- Identify payments for accounts receivables due to the City that have not been collected or are at risk of not being collected

Key findings from the audit are:

- For calendar years (CY) 2006-2009, PWA staff billed \$851,535 but only collected \$90,058 (11 percent collection rate)
- The collection process for IDAP accounts receivables was particularly demanding of City resources, including requiring further efforts by the City’s centralized accounts receivables and collection units, failing to result in an adequate return on investment
- Deficiencies identified in internal controls included:
 - Lack of comprehensive policies and procedures for collecting IDAP accounts receivables prior to 2008
 - PWA staff did not consistently send initial illegal dumping invoices in a timely manner
 - PWA Management did not maintain guidelines on how to detect and report fraud to Management in the event that it occurs

- Sufficient documentation to pursue collection efforts was not always maintained and PWA Management could not provide documentation supporting that an allowance for doubtful accounts was established and uncollectible accounts receivable for illegal dumping remain on the City's books

In response to these findings, the audit provided seven recommendations to the Administration, PWA Management, and Finance and Management Agency (FMA) Management.

Summary of Results

The December 2010 PWA-IDAP Accounts Receivables Performance Audit contained seven recommendations. The Office's recommendation follow-up process found that all (100%) of the recommendations are closed or no longer applicable.

In July 2011, PWA - IDAP was eliminated as a result of the audit. Given this outcome, the Office considers the recommendations that pertained to PWA - IDAP's operations (recommendations 2, 3, 4, 5, and 7) no longer applicable. However, recommendations 1 and 6 address general management practices and are relevant to current City operations. The status of these recommendations is further discussed in the table below.

Implementation Status of Recommendations

#	RECOMMENDATION	STATUS	EXPLANATION/FOLLOW-UP
1	Evaluate the effectiveness of its multi-pronged approach to deterring illegal dumping, including community outreach, investigation, and enforcement. Its evaluation should consider cost effective alternatives and other distinctive ways to identify violators and deter illegal dumping, such as options discussed and recommended in the April 2009 PWA Performance Audit.	Closed	This recommendation is considered closed because PWA evaluated the effectiveness of its illegal dumping efforts as recommended and, as a result, in July 2011, PWA-IDAP was eliminated. According to PWA, its efforts regarding illegal dumping are mostly limited to responding to reported dumping, due to limited resources.
6	Allocate the needed resources to implement the recommendations from the April 2009 PWA Performance Audit as it pertains to illegal dumping or viable alternatives to achieve the same results.	Closed	This recommendation is considered closed. On March 5, 2012, PWA submitted an evaluation of its illegal dumping efforts to the Public Works Committee, including a review of fencing, bulky pick-up, amnesty days, forensic investigations, citizen declarations, surveillance cameras, stakeouts, public outreach, signage, online reporting, state task force, and a pilot mattress program. PWA noted that many of these efforts were eliminated in 2012 due to the lack of resources, the lack of effectiveness of the approach, or the expiration of the settlement agreements driving the effort. However, PWA's proposed fiscal year 2013-15 budget allotted for three additional staff dedicated to illegal dumping removal.

Current City Efforts Regarding Illegal Dumping

Given the significant illegal dumping issues in the City, efforts to address citizens' and Council's concerns have been implemented.

PWA has:

- Supported "Adopt A Spot" community volunteers.
- Implemented Solid Waste and Recycling Franchise Services and the Zero Waste Services Contract to assist residents in properly disposing of bulky items to prevent illegal dumping.

The City Attorney's Office has:

- Launched an enforcement program against individuals responsible for illegal dumping.
- Drafted the illegal dumping ordinance that was passed in October 2013, which includes defining what constitutes illegal dumping and sets administrative, civil, and criminal penalties.



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**RE: AUDIT RECOMMENDATION FOLLOW-UP REPORT FOR THE ACCOUNTS
PAYABLE DUPLICATIVE PAYMENTS AND OTHER REPORTABLE MATTERS FY
2008-09 AND 2009-10 PERFORMANCE AUDIT**

Dear Mayor Quan, President Kernighan, Members of the City Council, City Administrator Santana, and Oakland Citizens:

The Office of the City Auditor (Office) is required to report the status of its audit recommendations to the City Council (Council). In March 2012 the Office released the Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10.

The audit contained seven recommendations addressing internal controls to prevent erroneous and duplicate payments. The Office's follow-up found that the City Administration and the City-wide Accounts Payable Unit have closed all seven recommendations.

Audits are an objective assessment of whether or not public resources are responsibly and effectively managed to achieve intended results. The impact of an audit's recommendations is achieved when the City Administration ensures prompt and proper implementation, increased accountability, and proper safeguarding of City assets. Therefore, it is critical that the City Administration act upon its responsibility to Oakland residents through timely implementation of audit recommendations.

It is only when the City's leadership prioritizes the timely implementation of audit recommendations that the City delivers on our promise to the public - to serve as effective stewards of the City's assets and continue to be deserving of the public's trust. I want to express our appreciation to the City Controller and staff for their cooperation and commitment to addressing the concerns highlighted in the audit.

Respectfully submitted,

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COURTNEY A. RUBY, CPA, CFE
City Auditor

RECOMMENDATION STATUS SUMMARY

ACCOUNTS PAYABLE DUPLICATIVE PAYMENTS AND OTHER REPORTABLE MATTERS FY 2008-09 and 2009-10 PERFORMANCE AUDIT

OVERVIEW

The Office of the City Auditor (Office) follows up on the recommendations of all audits to determine if they have been implemented by the Office of the City Administrator (Administration) or City Council (Council). Recommendation follow-ups increase accountability and ensure improvements identified by the audits are addressed.

Summary of Process

The purpose of the follow-up process is to assess the implementation status of audit recommendations and when supported, close the recommendations. The Office reviews supporting documentation submitted, conducts interviews, and when applicable performs on-site visits. The table below shows the three implementation status categories for recommendations.

Open	The recommendation has not been addressed or implemented.
Partially Closed	The recommendation has been partially addressed and implemented; however, part of the recommendation remains open. Further work is needed to close the recommendation.
Closed	The recommendation has been fully addressed and implemented.

Audit Overview

In March 2012, the Office released the Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10 Performance Audit. The objectives of the audit were to test a sample of payments for erroneous and duplicate payments as well as assess internal controls over prevention of these types of payments.

The audit found that approximately \$100,000 in duplicate payments was identified from 16 out of 63 payments based on a judgmentally-selected sample. For example, the audit found:

- Inaccurate data entry rendered Oracle's invoice number control feature ineffective.
- Creation of two invoice numbers for the same charge impaired Oracle's invoice number control feature.
- Oracle's invoice number control feature was rendered ineffective when two invoices were entered that only differed by the addition of dashes.
- Roles and responsibilities related to duplicate payment prevention were not clearly defined between the City-wide Accounts Payable Unit and individual City departments.
- The existing internal controls to prevent duplicate payments are insufficient and internal controls to identify duplicate payments are non-existent.

In response to these findings, the audit provided seven recommendations to the Administration and the City-wide Accounts Payable Unit. These recommendations, as well as their implementation status can be found in the table on the following page.

Summary of Results

The March 2012 Accounts Payable Duplicative Payments and Other Reportable Matters FY 2008-09 and 2009-10 Performance Audit contained seven recommendations. The Office's recommendation follow-up process found that the Administration and the City-wide Accounts Payable Unit have closed all seven recommendations.

Implementation Status of Recommendations

#	RECOMMENDATION	STATUS	EXPLANATION/FOLLOW-UP
1	The City Administration should prepare an Administrative Instruction that defines a process to prevent duplicate payments, including but not limited to: considering only inputting numbers and letters; capitalization consistency; establishing a methodology for creating invoice numbers; defining the roles and responsibilities of the City-wide Accounts Payable Unit and the departmental accounts payable personnel; and requiring reconciliation to ensure accuracy.	Closed	<p>In February 2013, the Administration implemented Administrative Instruction (AI) 1304, which addresses the Office's audit recommendations regarding the accounts payable process.</p> <p>The Office found that while a few sub-recommendations were not directly addressed in the AI, overall, the AI provides sufficient controls to ensure that invoice numbers are entered correctly and duplicate payments are prevented. Additionally, beyond the control processes established in the AI, the Administration also has been monitoring for duplicate payments. Since March 2012 when the audit was released, the Administration has used Audit Commander Software to test for possible duplicate payments three times. According to the Administration, while using Audit Commander is not sustainable, it is looking into other similar tools to test for duplicate payments.</p> <p>As a result of the Administration's control processes, this audit recommendation is closed.</p>
2	The City-wide Accounts Payable Unit should also ensure that it follows its own procedures, including to only process payment request forms that include original invoices, receipts, or statements and not process payment requests that include insufficient support, such as photocopies.	Closed	The City-wide Accounts Payable Unit developed and implemented accounts payable processing standards. These standards clarify that only payments with original invoices and sufficient support can be processed.
3	The City Administration should review payment controls over the Treasury Division's wire transfer process and provide clarifying guidance and procedures, if appropriate.	Closed	The Administration's AI 1304 established review procedures over the Treasury Division's wire transfers.
4	The City-wide Accounts Payable Unit should work with the vendor who reported the erroneous payments identified in this section to collect the amount due of \$5,431.	Closed	The City-wide Accounts Payable Unit sent a letter to the vendor on March 15, 2012 to collect the amount due. The vendor reimbursed the full amount, \$5,431, on April 2, 2012.

5	The City-wide Accounts Payable Unit should ensure that it follows its own procedures, including to only process payment request forms that include original invoices, receipts or statements, and not issue payments to a vendor based on price quotations or documents showing that the goods were already paid for with cash.	Closed	The City-wide Accounts Payable Unit developed and implemented accounts payable processing standards. These standards clarify that only payments with original invoices can be processed.
6	The City Administration should consider the costs and benefits of implementing a three-way match or whether there may be other related controls that could be implemented to ensure the City is only paying the correct amount for goods and services actually received.	Closed	In its response to the draft audit report, the City Administration conveyed the three-way match had been discontinued because it was found to be cumbersome and unnecessary. AI 1304 also includes controls over verifying what was received and what was billed. The Office determined no further action from the City Administration was necessary to close this recommendation.
7	The City Administration should direct departmental accounts payable personnel in the recommended Administrative Instruction to verify dollar amounts on billing statements and invoices to payment requests to increase the likelihood that data input errors will be identified before payment is issued to the vendor.	Closed	<p>AI 1304 requires that the supervisor/manager/authorized signer within a department:</p> <ol style="list-style-type: none"> 1) Review the payment request form and supporting documentation and ensure that services were rendered or work has been performed. 2) Approve and sign the payment request form.