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AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Scott P. Johnson

SUBJECT: A Follow-Up Report on City Auditor's
Mandated Audits

DATE: September 20, 2012

City Administrator
Approval

Date

10/10/12

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that the City Council accept this follow-up report on all audits performed by the City Auditor including those required by ordinance, ballot measure, City Charter, and other required audits and programs conducted and/or initiated by the City Auditor's Office (in house and contracted out) associated with the audits and programs.

EXECUTIVE SUMMARY

At the Finance and Management Committee on September 11, 2012, the Committee directed staff to return to the October 23, 2012 Finance and Management Committee with the following information:

1. The City Auditor's professional standards and how they can be established.
2. A clear list of all mandated audits required and the legislation that mandates the audit.

The information presented in this report was gathered from the City Auditor's website, the MGT report, information from various measures. Staff provided the City Auditor's Office an opportunity to review this report and provide input; however, no input was provided.

Item: _____
Finance & Management Committee
October 23, 2012

BACKGROUND/LEGISLATIVE HISTORY

At the Finance Committee on September 11, 2012, the Committee requested the City Administrator's Office to provide the City Auditor's professional standards and how they can be established.

The City of Oakland has an Administrative Instruction #137 dated May 21, 1997 on the reports subject to City Auditor Review/City Auditor's Additional Duties. In addition, the City Charter, under Section 403 lists the duties and responsibilities of the City Auditor as follows:

“Section 403. City Auditor. The City Auditor shall be nominated and elected in the same manner, for the same term, and at the same election, as the Mayor. To be eligible to the office a person must be a qualified elector of the State of California, and shall be a resident of the City at the time of filing nomination papers and for thirty (30) days immediately preceding the date of filing, and shall be certified by the California State Board of Accountancy as a Certified Public Accountant or by the Institute of Internal Auditors as a Certified Internal Auditor. The salary of the office shall be set by the Council, which shall be not less than 70% nor more than 90% of the average salaries of City Auditors of California cities within the three immediate higher and the three immediate lower cities in population to Oakland, and may not be reduced during the City Auditor's term of office, except as a part of a general reduction of salaries for all officers and employees in the same amount or proportion. The City Auditor shall have the power and it shall be his or her duty to audit the books, accounts, money and securities of all departments and agencies of the City and such other matters as the Council may request; to report to the Council periodically the results of such audits and to advise and make recommendations to the City Administrator regarding accounting forms design, fiscal and statistical reports and the methods or procedures for maintaining the accounts and accounting system throughout all departments, offices and agencies of the City. The City Auditor shall report to the Council instances of noncompliance with accepted accounting principles where recommendations for compliance have not been implemented by the City Administrator after reasonable time and opportunity. The City Auditor shall conduct surveys, reviews, and audits as the Auditor deems to be in the best public interest or as required by the Council or Mayor.”

Section 403 in the City Charter also specifies the following:

“For these purposes the public interest shall include, but not be limited to:

- (1) Reviewing and appraising the soundness, adequacy and application of accounting, functional, and operating controls and reliability and timeliness of accounting and other data generated within the organization.
- (2) Evaluating the city's internal controls to ensure that the City's assets and resources are reasonably safeguarded from fraud, waste, and mismanagement.
- (3) Ascertaining compliance with Council's resolutions and policies and the Mayor's Administrative Instructions and Directives, as well as applicable State and Federal laws and regulations.
- (4) Providing assistance to City Departments to enhance the effectiveness, efficiency and economy of their operations.
- (5) Preparing an impartial financial analysis of all ballot measures, pursuant to the provisions of the Municipal Code.
- (6) Preparing impartial financial analyses of proposed major expenditures prior to the approval of such expenditures. These analyses will be for informational purposes only and will include, but not be limited to, proposals, contracts, ventures, programs and construction projects. The proposed major expenditures selected for these financial analyses will be based on requests from Mayor/Council and/or deemed to be prudently advisable in the objective and professional judgment of the City Auditor.
- (7) Responding to requests for audit and reviews.
- (8) Submitting, at a public meeting of the full City Council, a quarterly report to the Council and public on the extent of implementation of recommendations for corrective actions made in the City Auditor's report.
- (9) The City Auditor shall conduct performance audits of each department as specified in the City budget.

The City Auditor shall be represented in all legal matters by the City Attorney except as provided otherwise in Section 401.”

(Amended by: Stats. November 1988 and March 2004)

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ANALYSIS

Government Auditing Standards

Government Auditing Standards (the "Yellow Book") contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other non-government organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

The City Auditor's Office was established by the City Charter to perform audits in accordance with Generally Accepted Government Auditing Standards (GAGAS). Professional standards for conducting audits in government have been promulgated by the comptroller general of the United States and published in Government Auditing Standards. One requirement of Government Auditing Standards is that audit organizations receive an external quality control review (peer review) at least once every three years. These standards are established by the Comptroller General of the United States in conjunction with the General Accountability Office (GAO), and are found in its publication, Government Auditing Standards. GAGAS was established to guide auditors and allow others to rely on auditors' work.

According to Government Auditing Standards (GAS) issued by the Comptroller of the United States, Report Quality Elements A8.02b, the audit report should be objective, which states the following:

“Objective means that the presentation of the report is balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner and in the proper context. This means presenting the audit results impartially and fairly. The tone of reports may encourage decision makers to act on the auditors' findings and recommendations. This balanced tone can be achieved when reports present sufficient, appropriate evidence to support conclusions while refraining from using adjectives or adverbs that characterize evidence in a way that implies criticism or unsupported conclusions. The objectivity of audit reports is enhanced when the report explicitly states the source of the evidence and the assumptions used in the analysis. The report may recognize the positive aspects of the program reviewed if applicable to the audit objectives. Inclusion of positive program aspects may lead to improved performance by other government organizations that read the report. Audit reports are more objective when they demonstrate that the work has been performed by professional, unbiased, independent, and knowledgeable staff”

The professional standards and guidance in the Generally Accepted Government Auditing Standards (GAGAS), provides a framework for conducting high quality audits with competence, integrity, objectivity, and independence. The standards can be achieved by following the GAGAS requirements and guidance in dealing with ethics, independence, auditor's professional judgment and competence, quality control, performance of the audit, and reporting.

In addition, as noted by the GAS in regards to objectivity, tone of reports, and a standard of independence, the administration recommends establishing a protocol framework that demonstrates better collaboration between the City Auditor, City Council, and City Administration that meets those auditing standards and serves the public well in an objective, non-adversarial and professional manner.

Mandated Audits and Required Activities

In addition to the required activities specified in Section 403 in the Oakland City Charter as listed on the previous page, other articles in the city Charter also define required activities or rights of the City Auditor's Office.

The following is a list of mandated audits, and other activities or rights of the City Auditor's Office which includes the type of mandates, the description of the requirement, and the frequency:

Type of Mandate	Description	Frequency
Oakland City Charter 403 – General Regulations	Requires the City Auditor to audit the books, accounts, money, and securities of all departments and agencies of the City, conduct surveys, reviews, and such other matters as the Council may request.	As Needed
Oakland City Charter Article IV, Section 403 (1)	Requires the City Auditor to review and appraise the soundness, adequacy, and application of accounting, functional, and operating controls and the reliability and timeliness of accounting and other data generated within the organization.	
Oakland City Charter Article IV, Section 403 (2)	Requires the City Auditor to evaluate the City's internal controls to ensure that the City's assets and resources are reasonably safeguarded from fraud, waste, and mismanagement.	
Oakland City Charter Article IV, Section 403 (3)	Requires the City Auditor to ascertain compliance with the Council's resolutions and policies and the Mayor's Administrative Instructions and Directives as well as applicable State and Federal laws and regulations.	
Oakland City Charter Article IV, Section 403 (4)	Requires the City Auditor to provide assistance to City Departments to enhance the effectiveness, efficiency, and economy of their operations.	

Type of Mandate	Description	Frequency
Oakland City Charter Article IV, Section 403 (5)	Requires the City Auditor to prepare an impartial financial analysis of all ballot measures, pursuant to the provisions of the Municipal Code.	
Oakland City Charter Article IV, Section 403 (6)	Requires the City Auditor to prepare impartial financial analyses of proposed major expenditures prior to approval of these expenditures. The proposed major expenditures selected for these financial analyses will be based on requests from Mayor/Council and/or deemed to be prudently advisable in the objective and professional judgment of the City Auditor.	
Oakland City Charter Article IV, Section 403 (7)	Requires the City Auditor to respond to requests for audit and reviews.	
Oakland City Charter Article IV, Section 403 (8)	Requires the City Auditor to submit, at a public meeting of the full City Council, a quarterly report to the Council and public on the extent of implementation of recommendations for corrective actions made in the City Auditor's report.	Quarterly
Oakland City Charter Article IV, Section 403 (9)	Requires the City Auditor to conduct performance audits of each department as specified in the budget.	As Requested by City Council through the budget process
Oakland Code of Ordinances Title 3 Section 3.13.100 (D)	Requires the City Auditor to conduct mandatory audits or compliance reviews of all candidates accepting public matching funds.	As Needed
Oakland Code of Ordinances Title 5, Section 5.04.540 (C)	Requires the City Auditor to audit annually on a test basis refunds previously approved by the Director of Finance.	Annually
Oakland Code of Ordinances Title 8, Section 8.38.110	Requires the City Auditor to audit amounts spent by the City Health Officer in abating sanitation conditions.	As Needed
Measure C (2009) (3% Surcharge to Transient Occupancy Tax Rate)	Requires the City Auditor to provide annual reports on the Fund's Financial Statement and Base Spending Requirement.	Annually
Measure D (2009) (Kids First! Oakland Children's Fund)	An Amendment to the Oakland City Charter Section 1300 to Provide Funding for the Kids First! Oakland Fund for Children and Youth In the Amount of Three Percent (3.0%) of the Actual Unrestricted General Purpose Fund (Fund 1010) City Revenue.	Annually

Type of Mandate	Description	Frequency
Measure K (1996) (Kids First! Oakland Children's Fund)	Calculate and publish actual amount of City appropriations for children and youth services. Adjust base amount each year after the base year of 1995-96 based on calculations consistent from year-to-year by the percentage increase or decreases in aggregate City appropriations from the base year.	Annually
Measure M (1997) (Emergency Medical Services Special Tax)	Requires the City Auditor to conduct an annual audit to assure accountability and the proper disbursement of the proceeds of this tax to fund emergency medical services.)	Annually
Measure N (1997) (Special Tax to fund Paramedic Services)	Requires the City Auditor to conduct an annual audit to assure accountability and the proper disbursement of the proceeds of a special tax to fund paramedic services.	Annually
Measure O (1994) (Library Services Retention and Enhancement Act of 1994)	Requires the City Auditor to conduct an annual audit to assure accountability and the proper disbursement of the proceeds of the library parcel tax in accordance with the Measure's objectives.	Annually
Measure Q (2004) (Library Services Retention and Enhancement Act of 1994 as amended in 2004)	Requires the City Auditor to conduct an annual audit to assure accountability and the proper disbursement of the proceeds of the library parcel tax in accordance with the Measure's objectives. Sunsets in June 2024.	Annually
LLAD (Landscaping and Lighting District)	Audit the Special Revenue Funds revenue, expenditures, operating financial information and compliance with spending objectives.	Annually
Oakland Municipal Code Title V	Audit, on a test basis, refunds previously approved by the Director of Finance.	Annually
Oakland Municipal Code Title III Article V	<ol style="list-style-type: none"> 1. Conduct audits of compliance reviews of all candidates accepting public matching funds. 2. Audit or perform compliance reviews of other candidates when necessary to determine if compliance with the eligibility requirements of Section 3.13.080(D) were met. 	As Needed

Type of Mandate	Description	Frequency
Administrative Instruction 137	1. Review and evaluate the submitted draft report. 2. Determine whether the Auditor wishes to prepare an analysis for attachment to the Agency report and inform the appropriate Agency staff whether or not the Auditor intends to review the report. 3. Work with the Agency generating the report and the Budget and Finance Agency to address any questions or concerns and ensure information used is consistent. 4. Submit an independent Auditor's analysis to the City Manager by the report deadline. If the Auditor's analysis cannot be completed by the report deadline, the Auditor shall submit a request to the City Council Rules Committee requesting that the report be postponed and outlining the reason(s) for postponement.	As Needed
Administrative Instruction 701	Follow on the implementation of recommendations for non-grant funded operations and programs. Submit progress report to City Administrator.	Every 6 months
Administrative Instruction 702	1. Review circumstances surrounding loss theft, or burglary of City assets. 2. Evaluate existing security procedures and internal controls. 3. Make recommendations to strengthen deficit security procedures and internal controls in conjunction with the Police Department. 4. Prepare reports covering, but not limited to, the following aspects: verification of amount of the loss; investigation activities carried out by the Police Department and the City Auditor; steps taken to recover the loss and recommendations for determining similar losses in the future. 5. Send copies of the report to City Manager; all department heads; and Risk Manager.	As Needed
Administrative Instruction 977	Conduct periodic audits of departmental cellular telephone bills, including a review of monthly charges to detect inconsistencies in the use of equipment.	Periodically
Administrative Instruction 1055	1. Review Purchasing card procedure. 2. Perform periodic audits of Purchasing card usage.	Periodically
Administrative Instruction 4323	Review monthly departmental purchasing report for abuses or other inappropriate uses.	Monthly

Sources: Report from MGT of America, Inc. and Information compiled from Administrative Instructions and various Ballot Measures.

The following is a list of Study and Audit Reports that have been issued by City Auditor's Office from 2007 to present:

DATE ISSUED	STUDY OR AUDIT REPORT NAME	* STAFF OR CONTRACTOR PRODUCED	* AUDIT MANDATED BY?
11/29/07	Payroll and Compensation Practices Performance Audit	Contractor	City Charter
05/29/08	Measure K Performance Audit - Children & Youth	Staff	City Charter
06/30/08	Measure N Performance Audit - Emergency Med Svc. Act	Staff	City Charter
06/30/08	Measure M Performance Audit - Emergency Med Svc.	Staff	City Charter
10/27/08	Measure Q Performance Audit - 2005-07 - Library	Staff	City Charter
04/29/09	Public Works Agency Performance Audit	Contractor	City Charter
05/28/09	Interim Report on Residential Parking Permit RPP	Staff	City Charter
07/14/09	Measure K - Kid's First 2.5% Set Aside Performance Audit	Staff	City Charter
08/31/09	Measure Y-Violence Prevention Program Performance Audit	Staff	City Charter
10/21/09	Hiring Practices Performance Audit	Contractor	City Charter
06/18/10	CARRS Request	Staff	City Charter
06/23/10	Management Systems RPP Performance Audit	Staff	City Charter
06/23/10	Revenue and Costs RPP	Staff	City Charter
06/23/10	Policies and Analyses RPP	Staff	City Charter
09/20/10	Measure Q 2007-09	Staff	City Charter
11/18/10	CEDA Loans	Staff	City Charter
12/16/10	PWA-IDAP Accounts Receivable	Staff	City Charter
05/06/11	Senior Center Operational Review	Staff	City Charter
06/22/11	ARRA - Stimulus Package	Staff	City Charter
07/14/11	Measure N 2007-09	Staff	City Charter
07/14/11	Measure M 2007-09	Staff	City Charter
08/17/11	Ranked Choice Voting	Staff	City Charter
10/04/11	Fox Theater	Contractor	City Charter
12/07/11	Bilingual Pay Review	Staff	City Charter
03/28/12	Accounts Payable	Staff	City Charter
08/07/12	OPD Technology Performance Audit	Staff	City Charter

DATE ISSUED	REVIEW	* STAFF OR CONTRACTOR PRODUCED	* REVIEW MANDATED BY?
05/13/08	Interim Public Ethic Commission (PEC) Compliance Review of Neighbors for Aimee Allison Campaign (Public Matching Funds)	Staff	Code of Ordinance
07/07/08	PEC Compliance Review of Neighbors for Aimee Allison Campaign	Staff	Code of Ordinance
07/06/09	PEC Compliance Review of the Committee for Clifford Gilmore	Staff	Code of Ordinance
05/06/10	East Oakland Multipurpose Senior Center Operational Review	Staff	Code of Ordinance
05/31/10	PEC Compliance Review of Nancy Nadel for City Council	Staff	Code of Ordinance
05/31/10	PEC Compliance Review of the Committee for Sean Sullivan	Staff	Code of Ordinance

Source: Outstanding and Completed Audits by City Auditor and MGT review of reports published by the Office from 2007 to 2010

(*) The information provided in the "Staff or Contractor Produced" and "Audit Mandated By" columns were compiled from the information on the City Auditor's website and information gathered from the MGT report. The information on the chart has not been verified by the City Auditor.

In addition to the conducting audits, the Office of the City Auditor also provides impartial financial analysis of all ballot measures in the City. The following ballot measure analyses were provided to the City Council:

MEASURE ANALYSES PERFORMED BY THE CITY AUDITOR SINCE 2008
Measure J (2011) - New Deadline to Fully Fund Closed Police & Fire Retirement Plan Measure I (2011) - Temporary Parcel Tax Measure H (2011) - Return to the Appointment of the City Attorney Measure X (2010) - Parcel Tax Measure W (2010) - Telephone Access Charge Measure V (2010) - Tax on Marijuana Measure BB (2010) - Proposed Revision of 2004's Measure Y Measure H (2009) - Real Property Transfer Tax Clarification Measure F (2009) - Creation of "Cannabis" Business Classification Tax Category Measure D (2009) - Amendment of 2008's Measure OO Measure C (2009) - 3% Surcharge to Transient Occupancy Tax Rate Measure OO (2008) - Kids First! The Oakland Fund for Children & Youth Act Measure NN (2008) - Oakland Police Services Expansion Measure Measure J (2008) - Telephone Utility User Tax Modernization

Source: City Auditor's website

PUBLIC OUTREACH/INTEREST

This item did not require any public outreach.

COORDINATION

This report was routed to the Budget Office, Office of the City Attorney, and Office of the City Auditor for review.

The information presented in this report was gathered from the City Auditor's website, the MGT report, and information from various measures and has not been confirmed by the City Auditor. Staff provided the City Auditor's Office an opportunity to review this report and provide input; however, no input was provided.

COST SUMMARY/IMPLICATIONS

There is no cost summary associated with this report as this is an informational report only.

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified

Environmental: No environment opportunities have been identified

Social Equity: No social equity opportunities have been identified

For questions regarding this report, please contact Annie To, Administrative Services Manager, at 510-238-7494.

Respectfully submitted,


SCOTT P. JOHNSON
Assistant City Administrator

Prepared by:
Annie To, Administrative Services Manager II
City Administrator's Office

Attachment (1):

- 1. Attachment A – Oakland City Auditor's Audit Standards and Audit Process***

Item: _____
Finance & Management Committee
October 23, 2012



Oakland City Auditor
Courtney A. Ruby

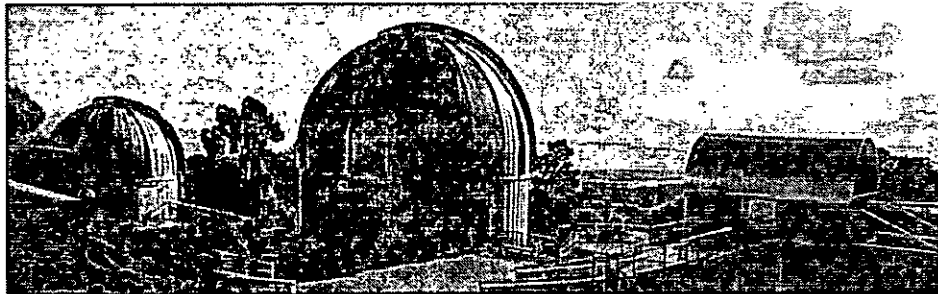
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RESPONSIBILITY AND AUTHORITY

Oakland City Auditor Courtney A. Ruby, CPA, CFE, was elected by the voters of Oakland in November 2006. The City Auditor works for and reports to the citizens of Oakland. As an independently elected official, the City Auditor is able to be objective, impartial and resolute when reviewing City-related business and program activities.

Your City Auditor is not connected to any other City departments. In order to maintain objectivity, she has no responsibilities in the day-to-day financial and accounting operations of the City of Oakland. This autonomy allows her to remain independent and unbiased in her role as Oakland's full-time watchdog - focused on ensuring that tax dollars and other resources are spent in the public's interest.

The City Auditor's job is to analyze the City's operations and programs, as well as to issue reports to the public, elected decision-makers and City administration - detailing her findings, conclusions and recommendations. Once issued, all reports are available to the public from this website.

The City Auditor has the power and the duty to audit the books, accounts, money and securities for all inner City agencies and departments. The Oakland City Auditor also conducts surveys, reviews and audits that are in the best interest of the public. There's nothing in Oakland City government that the City Auditor cannot look into.

The City Auditor welcomes and encourages requests for audits and reviews from Oakland citizens, the Mayor, City Council, the City Administrator and City employees.

For more detailed information on the duties and responsibilities of the City Auditor, please see the Oakland City Charter.

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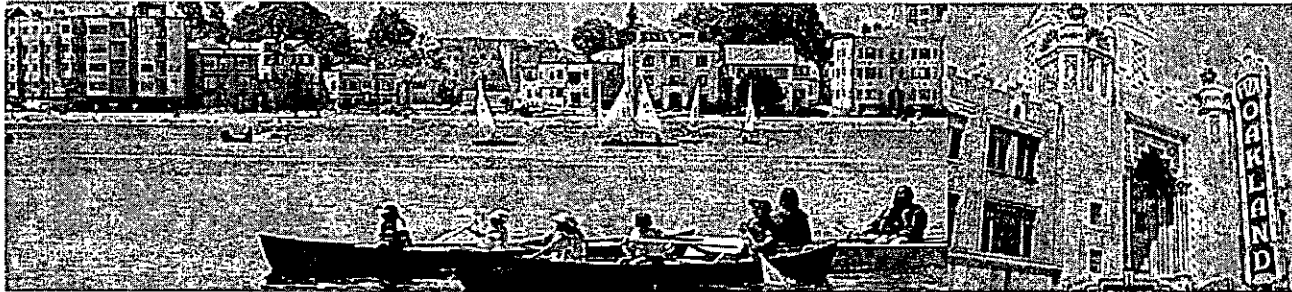
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AUDIT STANDARDS

The Office of the City Auditor is in compliance with the Generally Accepted Government Auditing Standards (GAGAS) in order to provide a framework for conducting performance audits of the highest quality and credibility. In March 2010, an independent team of government auditors conducted a peer review of all work performed from 2007 to 2009 and found that the Office of the City Auditor met the highest standards in government performance auditing. To learn more about the findings of the peer review, [click here](#).

GAGAS standards contain audit fieldwork and reporting guidelines to ensure quality, based on the appropriate:

- Planning and supervision;
- Evidence collection and documentation; and
- Report contents and quality control elements.

Auditing standards also contain fundamental requirements to ensure credibility, including:

- Independence and objectivity of the audit organization and staff;
- Professional judgment in performing audit work and report writing;
- Competence of audit staff; and
- Quality control assurance and external peer reviews.

Read more about Generally Accepted Government Auditing Standards ([click here for external link](#)), or read about our [Audit Process](#).

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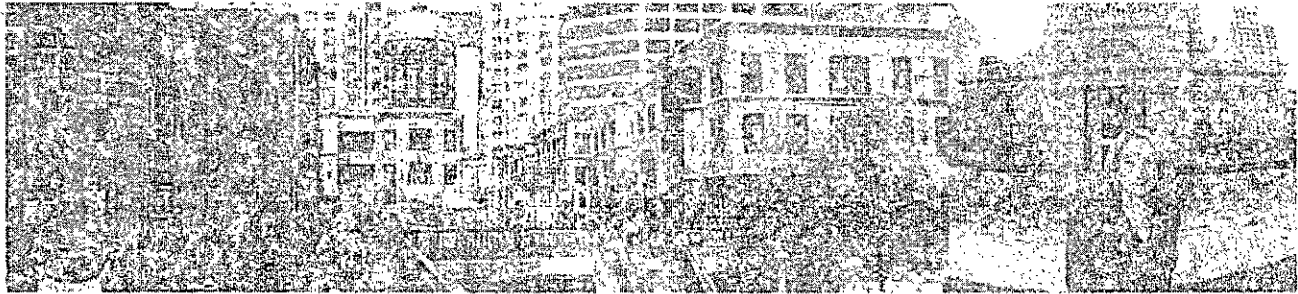
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AUDIT PROCESS

The audit process is designed to return in-depth and meaningful performance audits with an emphasis on quality control, ongoing communication with the departments/divisions being audited, public input and transparency. All of the Auditor's audits are performed in compliance with [Government Auditing Standards](#). In March 2010, an independent team of government auditors conducted a peer review of all work performed from 2007 to 2009 and found that the Office of the City Auditor met the highest standards in government performance auditing. To learn more about the findings of the peer review, [click here](#).

Selection of Audits

The decision to initiate an audit is determined by a combination of factors, including, but not limited to, a program/department's budget size, vulnerability to Fraud Waste + Abuse or any prior audit coverage, as well as concerns from citizens, City Officials, City staff and the City Auditor herself.

- **Survey and Planning** Early in the process, our auditors survey organizational functions and program activities to obtain background information (i.e. mission, resources, responsibilities, etc.) and identify controls of key accounting and programmatic systems of operation.
- **Fieldwork** Audit fieldwork consists of interviewing auditee staff, observing operations and reviewing, analyzing and documenting relevant information to determine the extent to which resources are being used in the most economic, efficient and effective manner.
- **Keeping Management Informed** During the audit, our staff keeps management apprised of findings through meetings, informal discussions and briefings. It provides an opportunity for the Auditors to clearly understand the facts and circumstances surrounding the finding(s), as well as to correct misunderstandings and inaccuracies; and, the auditee is given early notice of deficiencies so management can take immediate action when possible.
- **Draft Report** Once audit findings are completed, a draft report which includes the recommendations for improvement is prepared. Our Auditors then schedule an exit conference to review the draft report with management and to receive management's opportunity to comment on the findings and recommendations; prior to issuance of the final report.
- **Administration Response** The Administration is then given a specified time to respond to the findings and recommendations. The report is considered a "work-in-progress" and is not a public document at this point.
- **Report Issuance** At the end of the Administrative response period, and after reviewing and assessing the auditee's written response to the draft report, the Auditors issue the final audit report. All reports are posted on our website and are available to the public. The final audit report aims to provide a fair, complete and accurate picture of the audited area during the audit period.

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