

OFFICE OF THE
CITY MANAGER

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CALIFORNIA

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December 12, 2004

City Council
Sacramento, California

Honorable Members in Session:

**SUBJECT: INTERNAL AUDIT REPORT AND PROPOSED GUIDELINES
FOR THE MAYOR & CITY COUNCIL DISCRETIONARY
ACCOUNTS**

LOCATION: Citywide

RECOMMENDATION:

This report recommends that the Mayor/City Council adopt the attached resolution accepting the Internal Audit Report of the Mayor & City Council Discretionary Accounts. This report also recommends that the Mayor/City Council approve the proposed guidelines for the Mayor & City Council Discretionary Accounts.

CONTACT PERSON: Martin Kolkin, Internal Audit Manager, 808-5704
Gus Vina Finance Director, 808-7138

FOR COUNCIL MEETING OF: December 14, 2004

SUMMARY:

An internal audit of the Mayor & City Council Discretionary accounts was performed to evaluate if appropriate use of public funds occurred in the Mayor and City Council Discretionary Accounts during fiscal year 2003/04 and to provide an assessment of existing policies, procedures, and practices associated with these accounts.

The Internal Audit Report of the Mayor & City Council Discretionary Accounts (Attachment A) concluded that spending in these accounts was appropriate and that public funds were not misused during the year examined (fiscal year 2003/2004).

The Internal Audit report also noted the need for written policies and procedures and the establishment of clear practices for the use of discretionary spending. The Finance Department has completed written procedures which have been reviewed by the Internal Auditor. Additionally, this report recommends approval of proposed guidelines for Mayor & City Council Discretionary Accounts which are included as Attachment B.

COMMITTEE/COMMISSION ACTION: None

BACKGROUND:

In accordance with the approved Internal Audit Workplan, attached is the completed internal audit report of the Mayor and City Council Discretionary Accounts. It is recommended that the Mayor/City Council approve the attached resolution accepting the report.

As a follow-up to an earlier Mayor's request for the establishment of policies and procedures, the audit examined written policies and procedures for the Mayor and City Council Discretionary Accounts.

Report Results

The audit was performed in accordance with generally accepted government auditing standards and the responsibilities of the Internal Audit Manager. Based upon the records examined and auditing techniques employed, the Internal Audit Manager concluded that the Mayor and City Council Discretionary Account spending was appropriate and that public funds were not misused during the year examined, fiscal year 2003/04.

The report, however, does recommend that the Finance Department establish written policies, procedures and practices for the use of the discretionary accounts. In response to this recommendation, written procedures for discretionary accounts have been completed by the Finance Department. The procedures include the requirement for a quarterly review and reconciliation of the accounts by the Accounting Division and an annual review by the City's Internal Audit Manager. The procedures have been reviewed by the Internal Audit Manager. In addition, as part of this report, proposed guidelines for the Mayor & City Council Discretionary Accounts are being recommended for approval and are included as Attachment B.

FINANCIAL CONSIDERATIONS:

None

ENVIRONMENTAL CONSIDERATIONS:

This activity does not constitute a "project" and is therefore exempt from the California Environmental Quality Act (CEQA), CEQA Guidelines Sections 15061(b) and 15378(b)(3).

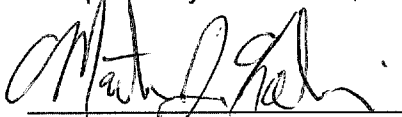
POLICY CONSIDERATIONS:

An internal audit of the Mayor & City Council Discretionary Accounts has been completed per the Internal Audit Work Plan approved by the Mayor/City Council. The Internal Audit Report concludes that public funds were not misused. The report recommendation of written policies and procedures for these accounts has been completed.

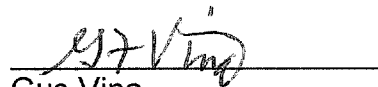
ESBD CONSIDERATIONS:

No goods or services are to be purchased.

Respectfully submitted,



Martin Kolkin
Internal Audit Manager



Gus Vina
Finance Manager

RECOMMENDATION APPROVED:



Robert P. Thomas
City Manager

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CITY OF SACRAMENTO INTERNAL AUDIT

MAYOR & CITY COUNCIL
DISCRETIONARY ACCOUNTS
ANNUAL REPORT – FISCAL 2004





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November 29, 2004

Honorable Mayor, City Council Members, and the City Manager:

The City of Sacramento's Internal Audit Manager has completed an audit of Mayor & City Council discretionary accounts for fiscal year 2004. The audit was conducted in accordance with generally accepted government auditing standards and the responsibilities of the Internal Audit Manager.

This examination was performed to evaluate if appropriate use of public funds occurred in the Mayor and City Council Discretionary Accounts during fiscal year 2004, and to provide an assessment of existing policies, procedures, and practices associated with these accounts.

Based upon the records examined and auditing techniques employed, I have concluded that Mayor and City Council discretionary spending was appropriate and that public funds were not misused during the year examined, fiscal 2004. However, I noted the need for written policies, written procedures, and the establishment of clear practices for the use of discretionary spending.


Martin J. Kolkin
Internal Audit Manager

**Mayor & City Council Discretionary Accounts
Annual Report - Fiscal Year 2004
Report Number 2005-1
Executive Summary**

An audit of the Mayor and City Council Discretionary Accounts for fiscal 2004 was completed. I have concluded that Mayor and City Council discretionary spending was appropriate and that public funds were not misused during the year examined, fiscal 2004.

Additionally, I have identified the areas for improvement, noted as audit findings below, while action taken and the City's Finance Director provided the estimated completion dates.

Audit Findings	Action Taken	Estimated Completion Date
Lack of written policies.	The Finance Director stated that at the Mayor's request, written policies have been prepared and will be presented for review by the Mayor and City Council.	12/14/04
Lack of written procedures.	The Finance Director noted that written procedures were complete.	Completed

**Mayor & City Council Discretionary Accounts
Annual Report - Fiscal Year 2004
Report Number 2005-1**

INTRODUCTION

In accordance with the approved Audit Workplan, the Internal Audit Manager completed an examination of the Mayor and City Council discretionary spending during fiscal year 2004.

OBJECTIVES

The purpose of this audit was to evaluate if the Mayor and City Council discretionary spending was appropriate for fiscal year 2004. Additionally, this examination provided an assessment of existing policies, procedures, and practices associated with these accounts.

AUDIT SCOPE & METHODOLOGY

The scope of this audit focused on spending within the nine discretionary accounts, the Mayor and the discretionary accounts for the eight City Council districts. Additionally, policies, procedures, and practices associated with the discretionary accounts were examined. The audit included, but was not limited to the following:

- Physical observations of budget and accounting operations and practices;
- Analytical review of budget data and financial information;
- Examination and verification of general ledger revenue and expense data for fiscal year 2004. Over 90% of the total discretionary spending in fiscal 2004 was selected for audit sampling; and
- Interviews and discussions with personnel from the Mayor and City Council Department, the Budget and Accounting Divisions, the Finance Department, and the City Manager's Office.

This audit was performed in accordance with generally accepted government auditing standards and the responsibilities of the Internal Audit Manager.

BACKGROUND

Use of Discretionary Accounts

Discretionary accounts afford the Mayor and City Council with an annual funding mechanism that provides opportunities to promote the City or compliment City functions. The use of these accounts is at the discretion of the Mayor and individual City Council members. However, the guidelines for the use of public funds still govern the use of these accounts, misuse and gifts to individuals remain prohibited¹. Accordingly, the Internal Audit Manager defined "inappropriate use" as spending that does not adhere to the guidelines for the use of public funds.

¹ Legal Opinion Memorandum regarding the Use of Council Discretionary Funds, dated October 15, 2001, Samuel L. Jackson, City Attorney.

History

The Mayor and City Council discretionary accounts were established during fiscal year 2000. Annual budgetary funding for discretionary spending was established at \$75,000 in fiscal 2000 and \$50,000 for fiscal years 2001 - 2004.

CONCLUSIONS

Discretionary Account Usage for Fiscal 2004

Mayor and City Council discretionary spending was appropriate for fiscal year 2004. No inappropriate payments and no misuse of public funds were discovered during the audit of the Mayor and City Council Discretionary Accounts. This examination sampled approximately 90% of the total dollar value expended in these accounts during the fiscal year².

Policies, Procedures, and Practices

On December 16, 2003, the Mayor and City Council requested the creation of written policies and procedures for discretionary accounts. Policies and procedures provide a direct managerial control over operations. Policies and procedures establish specific actions to be taken to ensure that objectives are identified and that desired results are achieved.

This audit noted that the Finance Department did not have written policies and procedures for the Mayor and City Council Discretionary Accounts. Employees relied on existing practices. Additionally, employee turnover and changes in processes have further emphasized the need for written procedures.

Recommendation

The Internal Audit Manager recommends that the Finance Director or his representatives establish comprehensive written policies and procedures for the Mayor and City Council Discretionary Accounts. At a minimum, the written procedures should clearly outline the process, the divisional responsibilities within the Finance Department, and the specific documentation requirements necessary for the use of discretionary funds.

Status of Corrective Action

The Finance Director concurred with this recommendation and stated that at the Mayor's request, written policies for discretionary accounts were being prepared and would be presented for review and acceptance by the Mayor and City Council. The Finance Director also noted that comprehensive written procedures were being completed.

² Sample size percentage calculated as a percent of the aggregate of all discretionary expenses recorded in the City's financial system, discretionary accounts, for fiscal 2004.

Other Concerns

In order to eliminate confusion, the Internal Audit Manager recommends that clear and accurate descriptions be used to describe the use and receipt of all discretionary funding within the City's financial system and all supporting registers or ledgers. This finding was also cited in the *Limited Scope Audit of the Discretionary Account for Council District Number Eight*, dated December 9, 2003.

Status of Corrective Action

The Finance Director stated that clear and accurate descriptions will be used to describe the use and receipt of all discretionary funding within the City's financial system and all supporting registers, effective October 1, 2004.

Finance Director's Response



DEPARTMENT OF
FINANCE

FINANCE ADMINISTRATION

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December 14, 2004

TO: Martin Kolkin, Internal Audit Manager

FROM: Gus Vina, Finance Director

SUBJECT: Internal Audit Manager Recommendations for Mayor & City Council
Discretionary Accounts, Fiscal Year 2004 Annual Report

Recommendations:

The Internal Audit Manager recommends that the Finance Director or his representatives establish comprehensive written policies and procedures for the Mayor and City Council Discretionary Accounts. At a minimum, the written procedures should clearly outline the process, the divisional responsibilities within the Finance Department, and the specific documentation requirements necessary for the use of discretionary funds.

Response:

I concur with the recommendations. Written procedures have been completed. At the Mayor's request, policies for the City Council's Discretionary Accounts have been prepared and will be presented for review by the Mayor and City Council.

Gus Vina

CC: Ken Nishimoto, Deputy City Manager
Russell Fehr, Budget Manager
Dennis Kauffman, Accounting Manager

**Mayor and City Council Discretionary Accounts
Proposed Guidelines for Use**

- The Mayor and City Council Discretionary Accounts were created for use by the Mayor and the Members of the City Council to support a wide range of activities including, but not limited to, special events, community sponsorships, and capital projects.
- The only limits on the use of the accounts are those imposed on the City regarding the proper use of public funds.
- The annual allocation is appropriated in the General Fund operating budget with a separate budget number for the Mayor and each Council Member.
- The process to expend funds from the accounts is as follows:
 1. Council office staff prepare the payment request including support documentation
 2. Budget Office reviews and processes the request
 3. Budget Office provides a monthly accounting report to the Mayor and Council Member for their individual account.
 4. Accounting reviews and reconciles the accounts quarterly
 5. Internal Auditor reviews accounts annually
- Sufficient funds must be available in the account prior to expenditure.
- No reimbursements between discretionary accounts and private donation accounts.
- At the end of each fiscal year, unused balances of the operating accounts are allocated to the Mayor and City Council Discretionary Capital Improvement Program Council accounts.

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

**RESOLUTION ACCEPTING THE MAYOR & CITY COUNCIL DISCRETIONARY
ACCOUNT INTERNAL AUDIT REPORT – FISCAL YEAR 2004 AND APPROVING
THE DISCRETIONARY ACCOUNT GUIDELINES.**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

- 1) The Mayor/City Council accepts the Mayor and City Council Discretionary Account Internal Audit Annual Report for fiscal year 2004 and guidelines for Discretionary Accounts.

- 2) The Mayor/City Council approves the guidelines for the Mayor & City Council Discretionary Accounts.

Mayor

ATTEST:

City Clerk