Audit Report

Fiscal Year 2017 Follow-up

March 2017

In this project, we selected 21 high-risk recommendations from 8 audits for testing. Department management reported 11 of them as fully implemented. We were able to confirm the implementation of all 11. We also reviewed 10 recommendations and confirmed management has made substantial progress in implementing most of these recommendations, but they are still underway.

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Cover: Aerial view of downtown Austin, iStock.com/ RoschetzkyIstockPhoto

Objective

The objective of this follow-up audit was to test the implementation of selected high-risk recommendations from the past five years of Office of the City Auditor audits.
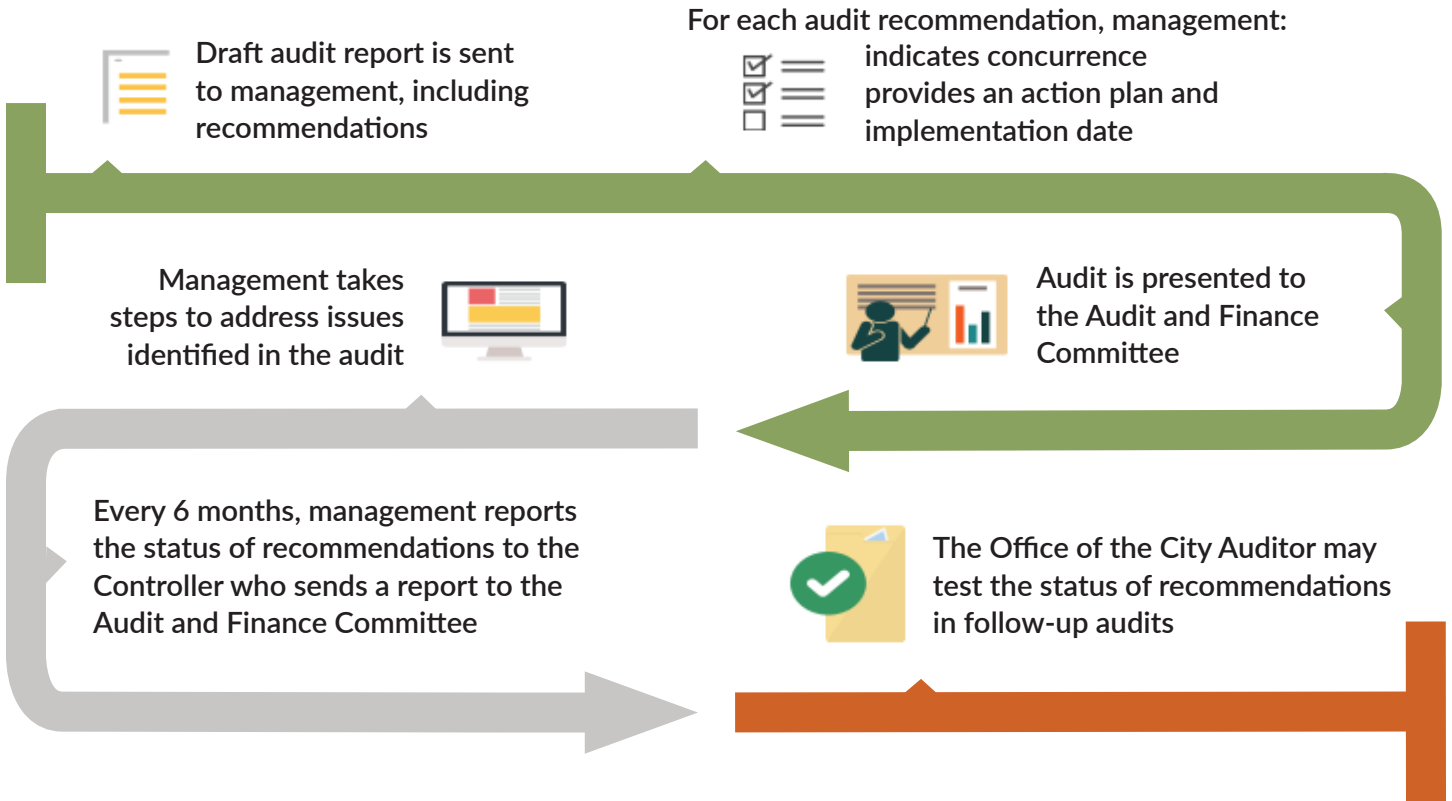
Background

City code requires that City management provide a response to each audit report either agreeing or disagreeing with the recommendations. The City Manger's response should also describe the actions, if any, that will occur in response to the recommendations. According to the City Council-approved Accounting, Auditing, and Financial Planning policy, the City Manager is responsible for establishing a process to ensure timely resolution of audit recommendations. Additionally, in 2002 the City Council approved a resolution that directed the City Manager to create action plans for the resolution of audit recommendations issued by the OCA. The resolution directed the City Manager to establish a database of actions City management is taking to address audit findings and implement audit recommendations.

In addition, the City Manager assigned the Controller's Office the responsibility of maintaining a database to track management actions to address audit recommendations. The Controller's Office requests th e implementation status of audit recommendations from respective City management on a biannual basis and records the reported status in the database. The information provided by management includes the implementation status of each recommendation and estimated dates of completion that may differ from original dates.

As part of the audit process, our office provides recommendations to City management to address risks identified during audits. From fiscal year 2012 to fiscal year 2016, we issued 155 recommendations. In previous follow-up projects, we tested 29 recommendations (from FY 12 through FY 16), and confirmed that 22 were implemented by management. In this follow-up, we tested 21 additional recommendations.

> The Office of the City Auditor made a correction to the total number of recommendations in the background on page 2 on October 25, 2017.

Audit Recommendation Implementation Process

Draft audit report is sent to management, including recommendations

For each audit recommendation, management:
indicates concurrence
provides an action plan and implementation date

Management takes steps to address issues identified in the audit

Audit is presented to the Audit and Finance Committee

Every 6 months, management reports the status of recommendations to the Controller who sends a report to the Audit and Finance Committee

The Office of the City Auditor may test the status of recommendations in follow-up audits

SOURCE: OCA analysis of recommendation implementation process, January 2017

What We Learned

Summary

We selected 21 high-risk recommendations for testing. Department management reported 11 of them as fully implemented. We were able to confirm the implementation of all 11. We also reviewed 10 recommendations and confirmed management has made substantial progress in implementing most of these recommendations, but they are still underway.

11	9	1
reported as "implemented" by management	reported as "underway" by management	reported as "N/A" & no longer tracked by Controller's Office

✓ confirmed as "implemented" by auditors

🕐 progress confirmed by auditors, but issues identified in original audits are not fully addressed at this time

Finding 1

Department management implemented 11 recommendations, resulting in process improvements throughout the City.

We confirmed the implementation of 11 high-risk recommendations to address issues in five audits.

REAL ESTATE ASSET MANAGEMENT AUDIT

APRIL 2013

Both recommendations reported as implemented by management were verified as implemented; 1 more recommendation is underway as discussed in Finding 2 below.

record all acquisitions by donation ✓

ensure accurate monthly acquisition reporting ✓

To ensure that the City's financial documents reflect acquisitions by donation, the Office of the Real Estate Services (ORES) implemented data sheets that track such properties and periodically send this information to Financial Services. Additionally, ORES staff is now reviewing monthly real estate acquisition reports at their weekly staff meetings to ensure they are complete and reflect updates to the timeline. Project managers in the departments managing acquisitions also have access to that information and are now able to more efficiently plan projects.

AUSTIN ENERGY APPLIANCE EFFICIENCY PROGRAM AUDIT

AUGUST 2013

Both recommendations were verified to be implemented.

conduct and document risk-based inspections ✓

improve controls over processing rebate applications ✓

The Austin Energy Appliance Efficiency Program Audit determined that inspections were not conducted to ensure that customers were installing the energy efficient appliances they received rebates for. Since the audit, Austin Energy has begun completing and documenting risk-based inspections for 10% of installations.

Additionally, to reduce the risk of errors in the rebate process, Austin Energy implemented additional levels of review. We confirmed that additional reviews were performed and as a result errors were uncovered and mitigated earlier.

SMALL & MINORITY BUSINESS RESOURCES PARTICIPATION GOALS AUDIT

AUGUST 2014

All 3 recommendations reported as implemented by management were verified as implemented; 1 more recommendation is underway as discussed in Finding 2 below.

fully document decisions to certify firms ✓

evaluate financial information for DBE firms ✓

develop comprehensive procedures and monitor compliance ✓

In January of 2015, the Small and Minority Business Resources Department (SMBR) developed a Certification Division procedures manual that provides guidance for the certification process, including a checklist of the required information and best practices for site audits. Additionally, we confirmed that the revisions in the procedures manual require the review and retention of relevant financial documentation as a part of the Disadvantaged Business Enterprise (DBE) certification process. Lastly, the procedure manual addressed areas of concern from the original audit, and compliance with those procedures is monitored by SMBR managers.

ANIMAL SERVICES PROGRAM AUDIT

APRIL 2015

Both recommendations reported as implemented by management were verified as implemented; 1 more recommendation is underway as discussed in Finding 2 below.

ensure accurate records for call responses ✓

safeguard shelter drug inventories ✓

The Animal Services Program Audit determined that response to requests for assistance with animals was not timely or tracked. Since the audit, Animal Services has developed a process for determining the appropriate actions and associated timeline for field staff to follow. Animal Services has also improved its data collection on the response time of requests and are now running and reviewing reports based on that data. Additionally, Animal Services has implemented a monthly inventory review to mitigate risks related to unsecured controlled substances.

AUSTIN ENERGY LOW–INCOME WEATHERIZATION PROGRAM AUDIT

OCTOBER 2015

Both recommendations reported as implemented by management were verified as implemented; 3 more recommendations are underway as discussed in Finding 2 below.

improve coordination between two programs ✓

clarify goals and track performance measures ✓

The Austin Energy Low-Income Weatherization Program Audit recommended that the Weatherization group better coordinate with the Customer Assistance Program (CAP) staff as well as other groups in Austin Energy to improve service delivery. Austin Energy enhanced the capabilities of the system tracking applicant information, allowing both groups to access and manage the same data. Staff also reported meeting periodically to coordinate between programs. Additionally, the audit recommended clarifying the goals and tracking the performance of the program. Austin Energy established a goal focused on the effective use of resources and started tracking performance of the program and reporting that data to stakeholders.

Finding 2

We also reviewed 10 recommendations and confirmed management has made substantial progress in implementing most of these recommendations.

10
recommendations are not fully implemented

9
reported "underway"

1
no longer tracked

Management made significant progress towards implementation of

7
recommendations from 5 audits

Council issued a resolution addressing the risks of

1
recommendation

Management has begun implementation of

2
recommendations from 1 audit

Management reported a status of "underway" for nine recommendations we selected for testing. Of those nine, management made substantial progress towards the implementation of seven recommendations and had begun implementing the other two. One additional recommendation, directing management to secure Personally Identifiable Information (PII), was subject to a Council resolution and therefore was not further tracked by the Controller's Office. We confirmed that efforts in multiple departments are underway to address PII security, but the risk has not been fully mitigated at this time.

We found that for seven recommendations in five audits, department management made substantial progress. Specifically:

- Austin Energy has made significant progress implementing changes to the weatherization process, including developing a contract manual, documenting application processing decisions, and making changes to program budgeting.
- Animal Services created an enrichment program for animals at the shelter and pursued funding for expansion; the shelter is currently undergoing those renovations.
- Neighborhood Housing and Community Development improved their contract monitoring process by reviewing and retaining additional supporting documentation.
- Real Estate Services worked with Communications & Technology Management (CTM) to utilize an existing system to create an inventory of City-owned property.
- Small & Minority Business Resources has drafted an operational plan, which is awaiting executive approval.

We found that management began the implementation of the three additional recommendations from two audits, but further work is needed.

- The Protection of Personally Identifiable Information (PII) Audit issued in 2013 identified the lack of a citywide program for monitoring PII. Subsequently, Council issued a resolution directing the City Manager to work with the City Clerk to create a team of stakeholders to develop a processes for collecting and securing PII. As a result, an Administrative Bulletin was signed in January 2016 providing general guidance related to handling PII. Several departments, including the City Clerk, CTM, and the Law Department have additional efforts underway, but compliance with the Administrative Bulletin has not been assessed so we are unable to determine whether the risks identified in the audit have been mitigated.
- The Development Services Department worked to automate fees in a central database, but some fees are still calculated outside the system. To reduce the risk of error from manual calculations, Development Services implemented a review process to confirm the accuracy of the fee calculations and began reviewing exception reports. While this improved the fee collection process, further action is required to fully implement two of the recommendations issued in the original audit in 2014.

See Appendix A for the summaries of the original audits and full text of the tested recommendations.

Additional Observation

The timely implementation of recommendations is essential to mitigate identified risks. Department management includes the planned implementation date in their response to audit recommendations. We noted that multiple recommendations were not implemented as planned. Specifically, three recommendations were planned to be implemented, per management's response, over four years ago and ten recommendations were planned to be implemented over a year ago, but are still reported as underway. This project tested four of those recommendations.[1]

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[1] The four recommendations tested that are over a year behind their original implementation date are from: the Real Estate Asset Management Audit (1); Neighborhood Housing and Community Development (NHCD) Contract Monitoring (1); and the Building and Development Fees Audit (2).

Appendix A

Real Estate Asset Management, April 2013

The Office of Real Estate Services (ORES) has established controls for the acquisition and sale of City's real estate. However, we found that ORES does not communicate the acquisition of donated real estate and the sale of real estate to the Financial Services Department for recording in the City's Fixed Asset Accounting System. Additionally, monthly reports provided to department Project Managers are not complete and accurate. ORES also does not have a comprehensive inventory of City-owned real estate.

> **Recommendation 1 - Implemented:** ORES should work with FSD to ensure that all acquisitions by donation and real estate sales are recorded in the Fixed Asset Accounting System.

> **Recommendation 2 - Implemented:** ORES should develop controls to ensure monthly reports are accurate and complete. In addition, ORES should develop and implement procedures to ensure it communicates the status of acquisitions to the City's department Project Mangers.

> **Recommendation 3 - Underway:** ORES should create a team of stakeholders involved in real estate to identify and implement a comprehensive solution for tracking City-owned property efficiently and effectively.

Austin Energy Appliance Efficiency Program Audit, August 2013

Austin Energy (AE) did not conduct on-site inspections to verify that customers installed qualified equipment before receiving Appliance Efficiency Program (AEP) rebates. As a result, there is an increased risk that AE may pay rebates for equipment that did not qualify for the program or that the customer did not install. In addition, inadequate separation of duties and supervision increase the risk that fraud or abuse could occur without detection in the AEP program. Further, insufficient information system controls increase the risk of unauthorized access to AEP data and create a risk that the size of a rebate could be changed inappropriately before payment.

> **Recommendation 1 - Implemented:** AE should initiate regular risk-based inspections of AEP rebate applications. AE should also revise its AEP policy to require inspections based on risk-based samples. In addition, AE should ensure that inspection forms contain all relevant information, including the applicant name, inspector's name and signature, owner or agent's signature, and the inspector's conclusion on whether the equipment passes inspection.

> **Recommendation 2 - Implemented:** AE should review, improve, and monitor controls over the processing and payment for AEP rebate applications to ensure that:
> a) Reviews by a second individual take place to help detect errors when applications are entered into the REIP database.
> b) Employees cannot bypass system errors indicating duplicate serial numbers without supervisory approval.
> c) Duplicate applications are not paid.
> d) Rebates paid are reconciled to rebates approved.
> e) Access rights reflect appropriate separation of duties for data entry, modifying payment modules, and modifying production data.

Protection of Personally Identifiable Information (PII), November 2013

PII is any data, such as Social Security Numbers or health information, that can be used to distinguish a specific individual or can be linked to a specific individual. Although 88% of departments report collecting some form of PII from citizens, employees, or both, the City does not have an effective process to protect PII. This increases the risk for an unauthorized disclosure of PII, which could harm citizens, employees, or the City.

> **Recommendation 1 – No longer tracked:** The City Clerk should create and lead a team of stakeholders from relevant City departments that will develop a compliance and monitoring program to ensure that PII collected or stored by the City is effectively protected.

Neighborhood Housing and Community Development Contract Monitoring Audit, August 2014

NHCD contract management efforts do not ensure consistent compliance with all contractual requirements. Specifically, we found that NHCD authorized some payments that were not in compliance with contract terms or were not fully supported by appropriate documentation. Obstacles to NHCD's ability to ensure that payments are processed in compliance with all contractual terms appear to relate to staff competency, contract monitoring tools, and priorities set by management.

> **Recommendation 1 - Underway:** The NHCD Director should implement, communicate, and monitor process improvements to ensure that all NHCD contracts are efficiently and effectively monitored. Such improvements should include:
> a) developing contracts that clearly specify the contractual requirements including deliverables and payment terms;
> b) consistently enforcing all contractual agreed-upon terms and conditions; and
> c) developing and implementing contract-specific monitoring tools.

Small & Minority Business Resources Participation Goals, August 2014

SMBR has not developed an operational plan, including tools to measure and evaluate program performance in relation to program goals, to ensure they are effectively working towards their mission. SMBR tracks goal achievement for individual projects, but does not aggregate this information to monitor overall project-level goal attainment. SMBR does monitor and report annual goal attainment and these reports indicate the City is generally not meeting annual participation goals established in City Code. Additionally, several certification files lacked documentation to facilitate and support certification decisions.

> **Recommendation 1 - Underway**: The SMBR Director should:
> a) develop an operational plan that facilitates the achievement of SMBR's mission;
> b) periodically aggregate and evaluate project-level payment information and factor the attainment of project specific goals into the overall annual goals; and
> c) design, implement, and monitor a process to ensure payments to M/WBE firms are properly entered into eCAPRIS and included in reports published on Austin Finance Online.

> **Recommendation 2 - Implemented:** The SMBR Director should design, implement, and monitor a process to ensure that decisions to certify firms are fully documented by SMBR staff.

> **Recommendation 3 - Implemented:** The SMBR Director should revise, implement, and monitor the process for gathering and evaluating information about firms applying for DBE certification to ensure PNW statements are accurate and supported with financial documentation and that site visits are conducted for M/WBE applicants.

> **Recommendation 4 - Implemented:** The SMBR Director should ensure that all areas of SMBR operations have formal, approved policies and procedures and a formal quality assurance review process to monitor

compliance with approved policies and procedures.

Building and Development Fees Audit, December 2014

The Planning and Development Review Department (PDRD) made several errors in assessing building and development fees, resulting primarily in undercharges to customers. Based on the high incidence of errors, we cannot provide assurance that customers who go through the City's development and permitting process are charged accurate fees in accordance with the Council-approved fee schedule and that the City is recovering the cost of providing land development-related services.

Recommendation 1 - Underway: PDRD should strengthen system controls over assessing fees in AMANDA, including, but not limited to:
a) automating fee calculation;
b) limiting the number of employee who can alter fee amount;
c) producing exceptions reports;
d) identifying the authority granted to each user; and
e) developing and implement user roles, providing staff only access to those functions that are necessary to accomplish their responsibilities.

Recommendation 2 - Underway: PDRD should establish a process to ensure that land development fees are consistently charged accurately and in accordance to the Council-approved fee schedule. Such process should include:
a) clearly assigned roles and responsibilities for fee accuracy;
b) clearly assigned roles and responsibilities for communication of fee changes to PDRD staff;
c) establish a process to verify fee types and fee amounts between AMANDA and the Council-approved schedule;
d) establish a process to ensure that all information that would be needed to perform a review of fee calculation be included in AMANDA, including needed documentation and explanations when a fee amount is altered;
e) identify training needs and provide periodic training accordingly; and
f) conduct periodic review of
     exception reports generated by AMANDA

Animal Services Program Audit, April 2015

The Animal Services Office continues to meet the City's 90% live outcome goal. However, Animal Services does not have sufficient facilities and resources allocated to meet the goal and remain in line with State requirements and industry best practices. As a result, the City's animal shelters are overcrowded, animals are not consistently receiving the recommended level of care, and response times to calls for assistance are untimely. In addition, Animal Services does not have sufficient processes to record and prioritize calls, reducing their ability to manage field operations. Animal Services also does not adequately monitor and safeguard medications.

Recommendation 1 - Underway: The Chief Animal Services Officer should evaluate kennel shelter operations and implement strategies to ensure Animal Services complies with applicable state requirements and meets recommended best practices for the housing and care of animals. Areas of review should include:
a) determining the optimum level of staff needed for kennel operations to meet best practices for animal care,
b) developing and implementing strategies to meet state requirements for animal housing and to ensure alignment with best practices related to capacity and animal care, and
c) developing and implementing strategies to ensure Animal Services timely responds to citizen emergency service calls.

Recommendation 2 - Implemented: The Chief Animal Services Officer should establish policies and procedures to ensure information collected on department operations, such as records of call responses, is complete and accurate, including:

a) providing documented guidance to dispatch staff on the criteria for categorizing customer service calls, and

b) ensuring that field staff track, collect, and report all necessary information regarding each service call including reasons for not responding.

Recommendation 3 - Implemented: The Chief Animal Services Officer should establish policies and procedures to safeguard shelter drug inventories, including policies and procedures for:

a) drug purchases, receiving, storing, and use;

b) separation of duties; and

c) disposal of expired or defective drugs, including the documentation, storage, and segregation of expired drugs from unexpired drugs.

Austin Energy Low-Income Weatherization Program Audit, October 2015

While customers receiving weatherization services appear to be satisfied, Austin Energy missed opportunities to provide weatherization services to some of its low-income customers and provided services to a few homes that were not qualified to receive those services. Austin Energy also lacks some key information to evaluate the effectiveness of its weatherization program. However, we observed that Austin Energy has begun key process improvements in the management of the weatherization program. While we commend these initiatives, more efforts are needed to ensure that Austin Energy administers the weatherization programs effectively and efficiently.

Recommendation 1 - Underway: Austin Energy management should ensure adequate monitoring and oversight over the eligibility process to ensure expending of program funds are optimized and that only eligible customers are served.

Recommendation 2 - Underway: Austin Energy should review and structure its weatherization contracting, operations, and measurements to ensure that funding allocated to the program is used.

Recommendation 3 - Implemented: Austin Energy management should evaluate the impact and complexity of operating the weatherization program under two separate groups and develop strategies to mitigate the risk of inadequate coordination and communication between the two groups.

Recommendation 4 - Implemented: Austin Energy management should clarify the goals of the weatherization program with the stakeholders and should track relevant and reliable performance measures for evaluating the success of the program.

Recommendation 5 - Underway: Austin Energy management should continue to implement the changes noted in the additional observation section including:

a) ensuring that accountabilities are clearly stated in the contracts and communicated to and executed by the contractors;

b) consolidating of all weatherization-related data into one central database; and

c) marketing the program to increase awareness of available weatherization services.

Scope

The audit scope included fiscal year 2012 to fiscal year 2016.

Methodology

To accomplish our audit objectives, we performed the following steps:
- analyzed OCA outputs, findings, and recommendations within the scope period;
- reviewed the Controller's Office status reports to determine the implementation status reported by management;
- selected 21 recommendations to evaluate further;
- interviewed department staff responsible for recommendation implementation;
- reviewed documents relevant to recommendation implementation; and
- observed the process improvements in the departments.

Audit Standards

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. We conduct performance audits to review aspects of a City service or program and provide recommendations for improvement.

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