

## Office of the City Auditor

Kenneth J. Mory, City Auditor



OUR VISION IS TO  
CONTINUALLY EARN THE TRUST  
OF THE CITY'S COUNCIL,  
CITIZENS, AND EMPLOYEES.

### Austin City Council



Lee Leffingwell  
Mayor



Sheryl Cole  
Mayor Pro Tem  
Place 6



Chris Riley  
Council Member  
Place 1



Mike Martinez  
Council Member  
Place 2



Kathie Tovo  
Council Member  
Place 3



Laura Morrison  
Council Member  
Place 4



Bill Spelman  
Council Member  
Place 5

# ACCOMPLISHMENTS REPORT 2012

The City Council's vision for the City of Austin is to be the most livable City in the country. The Office of the City Auditor's mission is to assist the Council in achieving that vision by promoting transparency, accountability, and continuous improvement through excellence in audit and investigative services.

This report highlights our office's annual contributions to making Austin the most livable City.

The Office of the City Auditor (OCA) seeks to assist the Austin City Council, citizens, and City management in establishing accountability, transparency, and a culture of continuous improvement in City operations and service delivery. This year our key contributions were to assist the City Council in improving public services by identifying opportunities for effectiveness and efficiency; ensuring compliance with laws, regulations, and policies; and providing information to improve public accountability and facilitate decision-making. Additionally, we looked to mitigate the risk of loss or abuse of assets as well as correcting wasteful practices.

Our work in Fiscal Year (FY) 2012 was driven by the City Auditor's annual Strategic Audit Plan (SAP), which is the result of a comprehensive planning process aimed at identifying local and global risk areas that impact Council priorities and our community. The SAP process utilizes a horizon risk-based approach to assist us in identifying high-impact projects or categories of projects over a five year period, that will help improve the efficiency, effectiveness, and transparency of City services.

## CONTINUOUS IMPROVEMENT

In FY 2012, the City Auditor continued to build upon successes from the previous years and continued to focus on improving the efficiency and effectiveness of our office. We completed several complex and time-sensitive audits as requested by the City Council. Also, the City Auditor's Integrity Unit (CAIU) conducted multiple integrity-related projects to help improve accountability and transparency in the City of Austin. Through these projects, the CAIU helped improve ethics City-wide by maintaining a visible integrity system and ensuring compliance with applicable policies, laws, and regulations.

Internally, we strengthened our quality assurance process which is aimed at monitoring the quality of our outputs and compliance with government auditing standards. Also, we initiated a strategic competency initiative through which we identified the body of knowledge, skills, and abilities (KSA) our office needs and are developing strategies to obtain those competencies. Furthermore, we initiated an OCA Academy for new hires, a 14-week audit "boot camp", which covers all aspects of auditing. We also provided in-house training on IT audits, audit evidence, and revisions to the government auditing standards.

## ACCOUNTABILITY AND TRANSPARENCY

### AUDIT SERVICES

In FY 2012, we completed 31 audit products, including performance audits, IT related audits, and reviews of specific issues brought to our attention by Council. Our audits addressed key Council interests, such as:

- Community Impact Programs (Austin Energy's Electric Rate Proposal Audits and Short Term Rentals Audits)
- Economic Initiatives (Review of Aramark Financial Statements and Revenue Follow-up Audit)
- Critical Infrastructure Systems (Windows Active Directory Security Audit and Forestry Management Audit)
- Contract/Grants Monitoring (Social Services Contract Monitoring Audit and Cemetery Contract Follow-up Audit)
- Sustainability/Environmental Programs (Austin Water Utility Capital Improvement Project Funding Audit and Water Loss Follow-up Audit)
- Public Safety (Police Operations Follow-up Audit)

Below are some examples of the audits we perform.

**Austin Energy (AE) Electric Rate Increase Projects:** At the request of City Council and the Audit and Finance Committee, we conducted two reviews of Austin Energy’s rate proposal and revenue requirement. We found that the proposed overall residential rates were reasonable, the cost allocation method acceptable, and the proposed reserve fund levels in compliance with financial policies, with one exception. Adjustments AE used to determine its revenue requirement were reasonable, except for two that were not reasonable, and five we could not verify.

**Short Term Rentals (STRs) Projects:** At the request of the City Council, we completed a review of the number and location of STRs in the City of Austin and provided information on STR locations and ownership status. We also analyzed call volume for 311 and 911 calls for a sample of residential properties and a sample of STRs and concluded that there were no significant differences. The information provided was used by Council as a basis for making policy decisions regarding STRs.

**Health and Human Services Department (HHSD) Contract Monitoring Audits:** We found weaknesses in HHSD’s social services contract monitoring program, including inconsistent practices and insufficient IT security controls. Following this audit, we reviewed HIV grant contracts and found that practices over HIV grant contracts did not provide assurance that services were delivered and funds were used in accordance with contractual agreements. Also, we did an audit of the City’s oversight efforts of American Recovery and Reinvestment Act (ARRA) funds and found that HHSD’s monitoring and review of selected ARRA-funded grants was not sufficient to ensure full compliance with certain grant requirements.

**Review of Aramark Financial Statements:** This followed our 2010 audit in which we found that the City could not reasonably assure the validity of the net profits received by Aramark. At the request of the City Council Audit and Finance Committee, we conducted a review of Aramark’s audited financial statements. We found that the audit documentation provided by Aramark’s external financial auditors did not provide sufficient and appropriate evidence and, as such, we could still not provide reasonable assurance that Aramark’s reported net profit was accurate.

**Cemetery Contract Follow-up Audit:**

We followed-up on a 2010 audit of the cemetery contract and determined that both recommendations were underway, as reported by management. We also observed that the overall conditions of the cemeteries had not improved and identified the need for a comprehensive review of the cemetery operations. Following this audit, the City Council directed the City Manager to explore the feasibility and fiscal impact of alternatives to the current model for cemetery operations and maintenance.

All audit outputs are available on our website at: [www.austintexas.org/auditor](http://www.austintexas.org/auditor)

In FY 2012, we issued a total of 19 recommendations that can improve the effectiveness, accountability, and transparency of City programs and provide quality information to the City and its citizens.

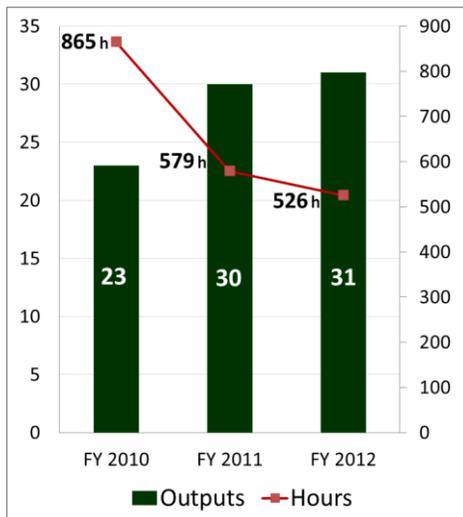
**SIGNIFICANTLY EXCEEDED FY 2012 AUDIT PERFORMANCE TARGETS**

In FY 2012, we continued to exceed targets for key audit performance measures, including the number of outputs, hours per audit, unit cost, and audit effectiveness, as shown below.

Unit Cost	Budget	Actual
Cost Per Audit	\$62k	\$57k

Audit Effectiveness	Budget	Actual
Recommendation Concurrence	90%	100%
Council Satisfaction with Audit Services (4 pt scale)	3.00*	3.6

**Audit Outputs Per Year and Average Hours Per Audit Output**



**Who Audits the Auditors?**

As required by the U.S. Comptroller General’s **Government Auditing Standards**, in August 2012 we underwent a **peer review** conducted through the Association of Local Government Auditors, the goal of which is to assess the quality of our audits and the competence of our professional staff. The review found our office in **full compliance** with standards.

**INTEGRITY SERVICES**

In FY 2012, the City Auditor’s Integrity Unit (CAIU) conducted multiple integrity related projects to help improve accountability and transparency in the City of Austin. Through these projects, the CAIU helped improve ethics City-wide by maintaining a visible integrity system and ensuring compliance with applicable policies, laws, and regulations.

The majority of the CAIU’s work in FY 2012 involved investigations of fraud, waste, and abuse. The CAIU received 180 allegations, 50 of which were opened for investigation. The remaining allegations consisted of issues in which the CAIU did not have the authority to investigate and were turned over to the proper authority or determined the issue would be better addressed by management.

**MET OR EXCEEDED MOST FY 2012 CAIU PERFORMANCE TARGETS**

Some key CAIU performance measures include the total number of cases investigated, those completed within 60 days, the cost per case, and Council satisfaction with integrity services:

CAIU Investigations	Budget	Actual
# of cases investigated to completion	50	44
% of cases investigated to completion within 60 days of initiation	75%	84%

Unit Cost	Budget	Actual
Cost Per Investigation	\$4.5k	\$4.5k
CAIU Effectiveness	Budget	Actual
Council Satisfaction with Integrity Services (4 point scale)	3.00*	3.6

\*Target for these measures were not recorded accurately in the City’s online performance reporting website.

## PROFESSIONAL COMPETENCIES

By participating in the professional auditing community and leading standards-setting task groups at all levels, OCA is able to share best practice approaches with top audit departments, identify key risks, and obtain information directly from national and international audit leaders. This allows OCA to build and improve the services we provide in the City of Austin. It also provides an opportunity for staff members to develop their leadership, managerial, and supervisory skills to prepare them for positions of increasing responsibility within the City.

### NATIONAL AND REGIONAL LEADERSHIP

Our staff serves in some of the premier audit organizations at all levels, and these are highlighted in the Key Leadership Positions insert at the bottom of this page. Our staff has also published articles in the Association of Local Government Auditors (ALGA) publication and had speaking engagements for groups including the Institute of Internal Auditors (IIA), the Austin Chapter of the Association of Certified Fraud Examiners (ACFE), and ALGA. Additionally, OCA staff provided comments on exposure drafts of the proposed changes to the Government Auditing Standards, the COSO' Internal Control Framework, and to COBIT's IT Governance Framework.

### CERTIFICATION, CONTINUING EDUCATION, & DIVERSITY

Professional certification and continuing education are the hallmarks of the government auditing profession. They provide Council and citizens with the assurance that the auditors performing the work have the necessary skills and knowledge to effectively conduct the audit and provide credible results and recommendations. The continuing professional education courses taken by our staff have focused on maintaining core skills and developing the skills necessary for the audits included in our Horizon Audit Plan. OCA has also identified the core certifications our staff should pursue as part of maintaining a high level of competency.

With the exception of one recent hire, all OCA auditors and investigators hold at least one professional certification. Certifications held by our staff include Certified Internal Auditor (CIA) and Certified Government Auditing Professional (CGAP), two internationally-recognized certifications attesting to individuals' competency and professionalism in the auditing field.

## PUBLICATIONS & RESEARCH

During FY 2012, OCA staff authored articles and other material, including, but not limited to:

- *The Role of Auditing in the Public Sector and Optimizing Public Sector Audit Activities*, IIA's Supplemental Guidance by K. Mory
- *When Is Fraud, Waste, or Abuse Something or Nothing?*, July/August 2012, ACFE Fraud Magazine by R. Snell
- *Fraud in Performance Measures*, Summer 2012 Local Government Auditing Quarterly by M. Wilson
- *Fighting Fraud: Fraud Detection in Audit Planning and Fieldwork*, Fall 2012 Local Government Auditing Quarterly by J. Hadavi and C. Stokes
- *From Boundless Surveying to Focused Planning*, Fall 2012 Local Government Auditing Quarterly by N. Raggi

OCA staff are also Certified Public Accountants (CPA), attesting to their ability to perform attestation and assurance audits; Certified Information System Auditors (CISA), attesting to their ability to conduct IT audits; Certified Internal Controls Auditors (CICA), relating to their expertise in the areas of internal controls including audit, review, design, and implementation; and Certified Fraud Examiners (CFE), attesting to their knowledge and expertise as anti-fraud professionals. Staff also hold certifications in related fields such as the CMA (Certified Management Accountant) and CRMA (Certification in Risk Management and Assurance).

We have also sought diversity in the background of our staff. We have auditors with background in public policy, public and private accounting, finance, law, information technology, forensic technology, quality assurance, investigations, urban affairs, organizational dynamics, federal and state auditing, and other specialties. As described in OCA Strategic Audit Plan, we are continuously assessing our future needs and addressing them in our recruiting and development plans.

## PROFESSIONAL PRESENTATIONS

During FY 2012, staff presented at national and regional conferences and seminars, including, but not limited to:

IIA - All Star Conference: Management Controls: Best Practices [K. Mory]

Nevada State Auditor's Seminar: IT Auditing for Non IT Auditors [K. Mory]

IIA Southern Regional Conference: Digging for Gold: Root Cause Analysis [K. Mory]

IIA Southern Regional Conference: The Politics Surrounding Tone at The Top in Governmental Auditing Entities [R. Snell]

IIA Southern Regional Conference: Conducting Internal Investigations: Soup of Nuts [J. Hadavi]

IIA- San Antonio Chapter: Fraud Considerations in Auditing [J. Hadavi and C. Stokes]

## KEY LEADERSHIP POSITIONS

Organization	Position	Auditors
<i>Institute of Internal Auditors - International</i>	Public Sector Committee	K. Mory, Vice Chair
	Editorial Advisory Board	K. Mory
	Competency Task Force	K. Mory
	Regional Conference Advisory Board	R. Elizondo
<i>Associations of Certified Fraud Examiners</i>	Nominating Committee	C. Hoskinson
<i>Association of Local Government Auditors</i>	Treasurer	C. Stokes
	Professional Issues Committee	K. Mory
	Publications Committee	C. Stokes M. Wilson
	Education Committee	J. Hadavi
	Award Judge	J. Hadavi
	Long-term Conference Planning Committee	K. Harrison
<i>Texas State Board of Public Accountancy</i>	CPE Committee	C. Holder
<i>Institute of Internal Auditors - Austin Chapter</i>	President	R. Snell
	Board of Governors	K. Mory R. Elizondo G. Rodriguez
		J. Cruz H. Katumwa G. Rodriguez, Chair
	Regional Conference Committee	R. Elizondo, Co-Chair
	Membership Committee	O. Ovcharenko, Chair

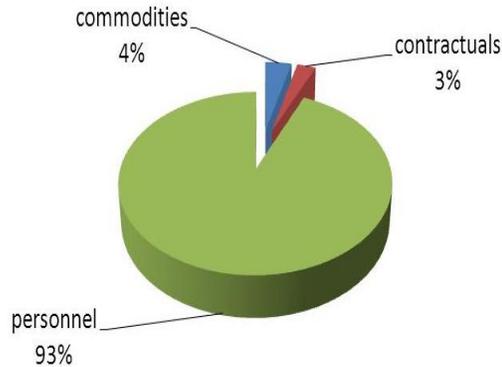
## FINANCIAL PERFORMANCE

While we had a high number of recruitments, vacancies and careful stewardship of expenditures resulted in OCA's expenses being about 10 percent less than budget, as shown in the table.

OCA NET EXPENDITURES		
	\$000	FTEs *
FY 2012 Budgeted	\$ 2,499	25
FY 2012 Actual	\$ 2,237	25

\* OCA also hires subject matter experts on a temporary basis, as well as interns from local colleges and universities.

## OCA FY 2012 NET EXPENDITURES



Kenneth J. Mory,  
CPA, CIA, CISA, CMA, CRMA,  
City Auditor

## OCA STAFF

Kenneth J. Mory, CPA, CIA, CISA, CMA, CRMA City Auditor  
Corrie Stokes, CIA, CGAP, CFE, Deputy City Auditor  
Jason Hadavi, CPA, CFE, Chief of Investigations  
Angie Guerrero, Department Executive Assistant  
Cheryl Edwards, Temporary Administrative Assistant

In alphabetical order:

Matthew Cornwall, CIA, Auditor  
JoJo Cruz, CICA, Auditor  
Tope Eletu-Odibo, Audit Intern  
Robert Elizondo, CIA, CGAP, CICA, Auditor  
Kathie Harrison, CGAP, CFE, CICA, Auditor  
Clayton Hoskinson, CFE, CISA, CFCE, Investigator  
Charles Holder, CPA, Temporary Auditor  
Ben Leffler, Temporary Investigator  
Patrick Johnson, JD, CGAP, CICA, Auditor  
Henry Katumwa, CGAP, CICA, Auditor  
Olga Ovcharenko, CGAP, CICA, CRMA, QA Coord., Acting  
Walton Persons, CPA, CICA, Assistant City Auditor  
Niki Raggi, CGAP, CICA, Assistant City Auditor  
Gus Rodriguez, CIA, CISA, CGAP, Auditor  
Neha Sharma, CIA, Chartered Accountant, Auditor  
Christopher Shrout, Auditor  
Karl Stephenson, CGAP, CICA, Auditor  
Rachel Snell, CIA, CFE, CICA, Assistant City Auditor  
Rebecca Takahashi, CGAP, Auditor  
Nathan Wiebe, CFE, Investigator  
Margot Wilson, CFE, CGAP, CICA, Investigator

We assist the City Council and citizens in ensuring that City government is accountable, transparent, and cost-effective.



## Office of the City Auditor Contacts

Kenneth J. Mory  
City Auditor  
Tel. (512) 974-2064

Corrie Stokes  
Deputy City Auditor  
Tel. (512) 974-2468

City Auditor's Integrity Unit:  
Jason Hadavi  
Chief of Investigations  
Tel. (512) 974-2469



301 W 2<sup>nd</sup> Street, Suite 2130 Austin, TX 78701  
Tel: (512) 974-2805 Fax: (512) 974-2078  
Fraud, Waste, and Abuse Hotline: (512) 974-2798  
[www.austintexas.gov/auditor](http://www.austintexas.gov/auditor)