City of Austin

AUDIT REPORT

A Report to the Austin City Council

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Three Year Follow-up Audit

January 2016

Office of the City Auditor

City Auditor
Corrie Stokes
CIA, CGAP, CFE

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REPORT SUMMARY

We confirmed that 10 of 15 recommendations, reported as implemented, were fully implemented. Additionally, we found that management did not implement all recommendations in a timely manner.

AUDIT NUMBER: AU16102
DATE ISSUED: January 27, 2016

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

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.

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January 2016

THREE YEAR FOLLOW-UP AUDIT

Report Highlights

Why We Did This Audit

This follow-up audit was conducted as part of the Office of the City Auditor's (OCA) FY 2016 Strategic Audit Plan. We conducted this audit because previous audit work indicated that while recommendations were reported as implemented some audit findings were not being fully addressed.

BACKGROUND

- As part of the audit process, we provided recommendations to City management to address risks identified during audits. From fiscal year 2013 to fiscal year 2015, we made 91 recommendations.
- According to the City Council-approved policy and related resolution, the City Manager is responsible for establishing a process to ensure timely implementation of audit recommendations, including creating action plans to address recommendations and periodically reporting the status to Council.

OBJECTIVE AND SCOPE

The objective of the audit was to summarize implementation trends for recommendations issued by our office and to follow up on high-risk recommendations from the past three years of OCA audits. The audit scope included 15 of 53 recommendations reported as implemented from fiscal year 2013 to fiscal year 2015.

WHAT WE FOUND

We reviewed audit findings, recommendations, and the status of recommendations report to determine which recommendations reported as implemented should be tested. Based on our analysis, we selected 15 high-risk recommendations from 6 audit reports issued within our scope period:

- Austin-Travis County Emergency Medical Services
- Cemetery Sales & Administration
- Contract Development & Approval
- Information Technology & Planning
- Parkland Dedication
- Water Billing Process

We confirmed that 10 of 15 recommendations reported as implemented were fully implemented and 4 recommendations require further work, and management no longer agrees with 1 recommendation. We also found that management did not implement all recommendations in a timely manner. On average, it took departments 5 months longer than estimated.

Several factors that we believe may have contributed to departments not fully implementing recommendations and not implementing recommendations in a timely manner were:

- unclear or technical recommendations;
- differing expectations for what implemented meant;
- staff turnover in departments; and
- limited testing of reported implementation.

We made changes to our process in 2015 to help address some of the above concerns.

For more information on this or any of our reports, email oca_auditor@austintexas.gov

BACKGROUND

The City of Austin Charter states that the Office of the City Auditor (OCA) is responsible for assisting the City Council in establishing accountability and improving service delivery through financial and performance audits following government auditing standards.

As part of the audit process, the OCA provides recommendations to City management to address risks identified during audits. From fiscal year 2013 to fiscal year 2015, we made 91 recommendations.

The OCA offers audited departments the opportunity to concur or not concur with our recommendations and provide a written response to the audit findings and recommendations prior to presenting the audit report for acceptance by the City Council's Audit and Finance Committee (AFC). In the scope period, management concurred with 86 of 91 recommendations issued, partially concurred with 4 of 91, and disagreed with 1 of 91[1].

EXHIBIT 1
RECOMMENDATION IMPLEMENTATION PROCESS

SOURCE: OCA analysis of recommendation implementation process, January 2016

[1] The Law Department disagreed with the audit recommendation in the Contract Development and Approval Audit. However, the Audit and Finance Committee requested that the Law Department improve the process during the presentation of this audit.

Audit reports issued from fiscal years 2013 to 2015 included findings related to a variety of outcome areas with most reports addressing one or more of the themes listed in Exhibit 2.

EXHIBIT 2
TOP THEMES OF AUDIT RECOMMENDATIONS

	FIVE YEAR FOLLOW-UP fiscal years 2010-2014	THREE YEAR FOLLOW-UP fiscal years 2013-2015
1	SERVICE EFFECTIVENESS	EFFECTIVE USE OF RESOURCES
2	LEGAL COMPLIANCE	SAFEGUARDING OF ASSETS
3	EFFECTIVE USE OF RESOURCES	SERVICE EFFECTIVENESS
4	SAFEGUARDING OF ASSETS	EMPLOYEE SAFETY
5	GOVERNANCE	GOVERNANCE

SOURCE: OCA analysis of recommendation category for OCA outputs for three year scope, January 2016

OBJECTIVE, SCOPE, AND METHODOLOGY

This Three Year Follow-up Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year 2016 Annual Audit Plan, as presented to the City Council Audit and Finance Committee. Last year, we conducted our first multi-year follow-up project that focused on selected high-risk recommendations issued over the prior 5 years. This approach expanded the number of recommendations we were able to review. This year we continued that approach focusing on the prior 3 years.

Objective
The objective of this follow-up audit was to summarize implementation trends for recommendations issued by the OCA and to follow up on high-risk recommendations from the past 3 years of OCA audits.

Scope
The audit scope included fiscal year 2013 to fiscal year 2015.

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;
- assessed relevant recommendations from the past three years and selected 15 to evaluate further[2];
- utilizing information contained in audit reports, the Controller's Office status reports, and audit staff feedback; and
- tested selected recommendations to confirm implementation.

[2] These recommendations were originally directed to: Austin Energy, Austin-Travis County Emergency Medical Services, Communications and Technology Management, Law Department, Office of the Medical Director, and Parks and Recreation Department.

WHAT WE FOUND

Finding 1: We determined that 10 of 15 recommendations were fully implemented, while 4 recommendations reported as implemented require further work by management.

We selected 15 recommendations reported as implemented that we categorized as high-risk from 6 audits. We confirmed that 10 of 15 recommendations reported, as implemented, were fully implemented, 4 recommendations require further work by management, and management no longer agrees with 1 recommendation.

The Parkland Dedication Audit was issued May 2013 and contained 3 recommendations. We verified that the Parks and Recreation Department (PARD) fully implemented all 3 recommendations with 1 of them being fully implemented during this follow-up audit.

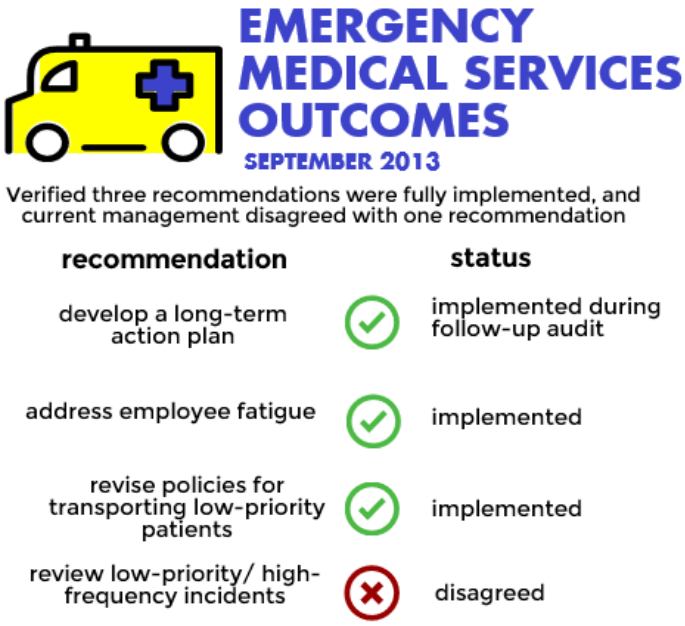
PARD has made improvements related to management of Parkland Dedication (PLD) information and funds. For example, PARD populated an internal database with collection, expenditure, and historical PLD information; implemented a process to calculate and review PLD fee assessments; and created a website to make PLD information readily available to developers and the public. In addition, PARD plans to add a new interactive PLD map to their website in the first half of 2016.

The Contract Development and Approval Audit was issued in March 2014 and contained 1 recommendation. Although the Law Department did not concur with this recommendation, the Audit and Finance Committee requested that the Law Department make improvements related to the development and approval of contracts. We confirmed that the Law Department implemented these improvements based on a review of randomly sampled contracts from four departments[3]. We found that the contract templates, changes to high-risk clauses, and individual contracts were reviewed by the Law Department. We also found that the Law Department communicated the departments' responsibilities for developing contracts.

[3] Capital Contracting Office, Economic Development Department, Neighborhood Housing and Community Development, and Purchasing Office

The Austin-Travis County Emergency Medical Services (ATCEMS) Outcomes Audit was issued in September 2013 and contained 4 recommendations. The first 2 recommendations were directed to ATCEMS and we verified that they were fully implemented by:

- developing a strategic plan that addresses increases in service demands during this follow-up audit; and
- soliciting input from a workgroup of key stakeholders and an external contractor and rolling out improvements to the field employee work schedule in January 2016.



The third recommendation was directed to the Medical Director and we confirmed that this recommendation was fully implemented with assistance from ATCEMS. Specifically, the two departments worked together to contact comparable cities and consult with the Travis County Medical Society on policy options, impact, and alignment with organizational strategic plans. Based on this information, the former Medical Director revised clinical guidelines for transporting patients to the hospital of their choice.

The temporary Medical Director disagreed with the fourth recommendation. He pointed out that the process to review high-risk / low-frequency events, such as heart attacks, are already reviewed. However, he thought the review of low-risk / high-frequency events, such as sprains, would not be an appropriate process or effective use of resources that are focused on reviewing events that impact patient outcome. The Office of the Medical Director management also noted that the low-risk / high-frequency events rarely have an impact on patient outcomes. In the cases where they did impact outcomes, these cases fell into the routine clinical event review process conducted by ATCEMS every six months.

The Information Technology Governance & Planning Audit was issued in October 2013 with 3 recommendations. We tested 2 recommendations reported, as implemented, and verified that neither recommendation has been fully implemented. Communication and Technology Management (CTM) has developed several documents outlining goals and initiatives, as well as a communication plan and brand strategy to improve communications and clarify roles and responsibilities.

Additional work is needed to fully implement both recommendations, including:

- identifying strategies, initiatives, and measures for all key goals and monitoring the implementation to completion; and
- expanding existing communication documents to effectively address the communication gap identified during the audit, as well as the follow-up survey conducted by CTM.

WATER BILLING PROCESS

SEPTEMBER 2014

Verified three recommendations are fully implemented and one recommendation is still underway

recommendation	status
improve the accuracy of meter reads	implemented
review system-flagged reads	underway
identify and communicate water leaks timely	implemented
monitor changes to key data fields	implemented

The Water Billing Process Audit was issued in September 2014 with 5 recommendations. We tested the status of 4 recommendations reported as implemented. We verified that Austin Energy fully implemented 3 recommendations by developing, implementing, and monitoring new processes related to accuracy of meter reads, communication of identified water leaks, and changes to key data fields.

We determined that 1 recommendation has not been fully implemented. While new procedures have been developed and are in use, Austin Energy has not yet monitored to confirm that these procedures are being followed and that the changes resulted in addressing identified issues.

The Cemetery Sales & Administration Audit was issued in November 2014 with 2 recommendations. We tested the status of 1 recommendation, reported as implemented, and found that it has not been fully implemented.

We noted that the Parks and Recreation Department has developed a monitoring and oversight structure by:

- revising staff roles and responsibilities;
- creating standard operating procedures with an emphasis on review and oversight;
- revising forms and reports; and
- conducting pre- and post-monument setting / resetting inspections.

CEMETERY SALES & ADMINISTRATION

NOVEMBER 2014

Verified one recommendation is still underway

recommendation	status
create a monitoring and oversight structure to ensure accuracy of sales transactions	underway

However, additional work is needed to ensure administrative and oversight responsibilities are successfully executed, including filling three vacant positions in the Cemetery Operations Group and ensuring adequate supervision is consistently provided.

Finding 2: Management did not implement all recommendations in a timely manner.

We noted that, on average, departments estimated that it would take them around 5 months to address recommendations. The proposed timelines ranged from 0 months (recommendations reported to be implemented during the audit) to 2 years to address the issue.

We reviewed reports issued by the Controller's Office with management-reported status of the recommendations to analyze the timeliness of implementation. The latest available reports addressed 74 recommendations from our scope period. Of those 74 recommendations, 53 recommendations were reported as implemented and 21 were reported as not yet implemented by management.

Of the 53 recommendations reported as implemented, 77% of the recommendations were reported as implemented within one year of the original estimated date and only 10% were reported as implemented when originally planned.

The analysis of the report shows that it took about 5 months longer, on average, than expected to implement our recommendations. For 7 recommendations, the lag was over a year.

Of the 21 that were not yet reported as implemented, 3 were from FY 2013, 11 from FY 2014, and 7 from FY 2015. Additionally, we saw that 7 recommendations issued in FY 2009 to FY 2013 were reported as still underway in 2015.

Not addressing the issues identified in audits in a timely manner leaves the City exposed to risks identified in those audits.

Observations:

According to a City Council-approved policy and related resolution, the City Manager is responsible for establishing a process to ensure timely implementation of audit recommendations, including creating action plans to address recommendations and periodically reporting the status to Council.

In conducting this work and the Five Year Follow-Up project in December 2014, we identified several factors that we believe have contributed to the gaps we are seeing in terms of implementation status and timing of the implementation. Specifically, we noted that:

- recommendations may have been too technical and/or unclear;
- management may not have enough detailed information regarding the conditions that our recommendations are intended to address;
- staff responsible for implementing recommendations may not be involved in developing the action plan;
- expectations regarding what constitutes an implemented recommendation vary; and
- implementation of recommendations may lose momentum with staff turnover.

Beginning in calendar year 2015, our office initiated the following strategies that may address some of the factors noted above:

- routinely communicating findings earlier in the audit process;
- incorporating more input from management into recommendation development;

- consistently providing a longer period for management to review audit findings and develop their response; and
- reviewing management responses prior to report issuance to determine whether planned strategies will address audit recommendations.

In addition, following this project, we plan to initiate an internal project to improve clarity of audit recommendations. We will continue to monitor the strategies above to determine whether more efforts are needed to ensure our recommendations are implemented timely and fully.

APPENDIX A

MANAGEMENT RESPONSE

MEMORANDUM

TO: Corrie Stokes, City Auditor

FROM: Elaine Hart, CPA, Chief Financial Officer, Financial Services Department

Elaine Hart

DATE: January 26, 2016

SUBJECT: **Management Response: Three Year Follow-Up Audit**

Financial Services and other departments' staff have reviewed the findings and observations identified in the Three Year Follow-Up Audit Report. This is the second consecutive year the Auditor's Office has conducted a follow-up audit on the status of departments' implementation of high-risk recommendations reported in previous audit reports. This year the audit report also summarized implementation trends.

The audit focused on the current status of outstanding recommendations as reported by City departments for inclusion in the semi-annual status report coordinated and issued July 7, 2015 by the Controller's Office. Audit staff conducted field work to comfirm for items selected for testing (15 items) whether the implementation was complete as reported and addressed the auditors' findings. Audit reports included in the scope of this follow-up included:

Audit Report	Date Audit Report Issued	Department
Parkland Dedication	May 2013	Parks and Recreation
Contract Development & Approval	March 2014	Law
ATCEMS Outcomes	September 2013	Emergency Medical Services
IT Governance & Planning	October 2013	Communication and Technology Management
Water Billing Process	September 2014	Austin Energy
Cemetery Sales & Administration	November 2014	Parks and Recreation

The audit report identified two findings:

1. *We determined that 10 of 15 recommendations were fully implemented, while 4 recommendations reported as implemented require further work by management.*
2. *Management did not implement all recommendations in a timely manner.*

Audit process improvements made by the City Auditor over the past year along with additional work by City departments will address these findings. The audit process improvements have (1) allowed management to gain a better understanding of audit findings and related underlying risks earlier in the audit process and (2) when management concurs with the finding, provided additional time for management to develop implementation solutions and timelines to address the auditors' findings and recommendations. A few of these key audit process changes mentioned in the report include:

- Notifying management of findings earlier in the audit process.

- Including more input from management into recommendation development.
- Providing management more time to review draft reports; consider findings and recommendations; and develop action plans and timelines for implementing findings that management concurs with.

I appreciate the work of the Auditor's Office on this audit as well as the Auditor's improvements to the audit process over the past year. Thank you for the opportunity to provide a response to this audit.

If you need additional information, please contact me at 512-974-2283.

CC: Marc A. Ott, City Manager
Assistant City Managers
Greg Canally, Deputy Chief Financial Officer
Ed Van Eenoo, Deputy Chief Financial Officer
Diana Thomas, CPA, Controller

APPENDIX B

ORIGINAL AUDIT REPORT SUMMARIES & RECOMMENDATIONS

Parkland Dedication, May 2013

The Parks and Recreation Department (PARD) generally complies with the Parkland Dedication (PLD) Ordinance, except that fees from developers are not expended within five years of receipt. While expenditures of PLD funds on park improvements during FY 2012 were for appropriate purposes and within an allowable distance, we identified other areas where efficiency and effectiveness can be improved. For example, PARD does not always correctly calculate fee assessment amounts and was unable to locate some supporting documentation. In addition, PLD information was not readily available to PLD fee payers or the public.

> **Recommendation 1:** The PARD Director should ensure the department expends PLD funds within the five-year period defined by the PLD Ordinance and develop procedures to obtain five-year extensions for exceptions.
>
> **Recommendation 2:** The PARD Director should review, revise, and implement a process for calculating and reviewing PLD fee assessments to ensure accuracy.
>
> **Recommendation 3:** The PARD Director should develop and implement a plan to make PLD information, including information on the collection, expenditure, and availability of PLD funds, readily available to developers and the public. PARD's website may be one vehicle for making the information readily available.

Austin-Travis County Emergency Medical Services (ATCEMS) Outcomes, September 2013

ATCEMS provides quality patient care; however, has not established a long-term plan on how it would provide services as demand increases. ATCEMS employees reported that they experience fatigue, it is getting worse, and it impacts the quality of their work. In addition, ATCEMS medics transport low-priority patients to facilities based on patient preference, which increases operational costs and may lead to periods when units are unavailable for higher-priority calls. ATCEMS also does not have a formal process to assess low-priority incidents.

> **Recommendation 1:** The ATCEMS Director should develop, document, and communicate a sustainable long-term action plan that addresses increases in service demands and ensures the organization achieves its strategic goals and objectives. In addition, the ATCEMS Director should review and revise the plan annually to assure it recognizes changing demands and aligns with the City's Imagine Austin plan.
>
> **Recommendation 2:** The ATCEMS Director should establish a group with representatives, including the Office of the Medical Director, human resources, the ATCEMS employee association liaisons, and other key stakeholders to develop a plan to address employee fatigue. This plan should evaluate the hybrid shift option and the total work hours per week, with regard to safety and effectiveness.

Recommendation 3: The Medical Director should work with stakeholders, including ATCEMS management, to review and revise policies laid out in the current clinical guidelines and Operations Manual for transporting low-priority patients to the facility of their choice. The Medical Director should ensure the policy considers the efficient and effective use of its resources, while continuing to meet desired patient outcomes.

Recommendation 4: The Medical Director should develop, implement, and monitor guidelines governing the formal review of low-priority/high-frequency incidents, including how to assess the quality of patient care provided in these instances.

Information Technology (IT) Governance and Planning, October 2013

The City has implemented an IT Governance structure to oversee IT decision-making and communication processes. However, it does not have an effective communication process in place for its strategic initiatives to ensure that departments have enough information for them to understand their roles and responsibilities, and it is not clear who has operational responsibility for implementing the IT governance initiatives. In addition, the City has only partially implemented IT strategic planning and service delivery initiatives, and it has not put into action a sufficiently detailed tactical operating plan. Without full implementation, the City cannot ensure successful implementation of IT governance and planning.

Recommendation 1: The CIO should continue to develop, implement, and monitor a citywide IT Strategic Plan that lays out a specific vision or values and goals that are common to strategic plans. It also should present specific goals with detailed strategies, initiatives, and measures for ensuring that the City achieves the goals.

Recommendation 3: The CIO should also develop a citywide risk management plan that includes detailed steps to mitigate IT risks on an ongoing basis.

Contract Development and Approval, March 2014

There is limited evidence that all City contracts are reviewed by Law, as required by City Charter, resulting in contracts that may increase the City's risk. Additionally, contract clauses designed to safeguard the City's interests are not consistently included in all contract documents, and there does not appear to be an established review process for contract templates.

Recommendation 1: The City Attorney should work with the Purchasing Office to develop, implement, communicate, and monitor a process to ensure that:

a) contract templates used by City departments are followed or changes to the templates are reviewed and approved by the Law Department; and
b) all contract templates used by City departments are periodically reviewed for completeness and compliance with laws, regulations, and contracting best practices.

Audit & Finance Committee Recommendation to Management

The Law Department should work with the Purchasing Office, Economic Development

Department, Contract Management Department, Neighborhood Housing and Community Development, and other departments that develop contracts to create a list of high-risk clauses that should not be deviated from without legal review. The Law Department should work with contracting departments to ensure that all deviations from those high-risk clauses are reviewed prior to the execution of the contract and this review should be documented and include a reason for the deviation. Any modification to the template itself requires legal review.

Water Billing Process, September 2014

Austin Energy (AE) has a process to compare current water reads to historical water usage, but this process does not determine if water reads are accurate. Approximately 91% of reads are billed to customers without review by AE billing staff, and even this review may not ensure customer bills are accurate. Additionally, system controls do not prevent changes to key data fields and AE does not regularly review these changes. Lastly, Austin Water Utility is taking steps to improve performance related to maintenance and testing of large water meters, but does not proactively address issues related to small meters.

Recommendation 1: AE Management should develop, implement, and monitor a process to measure, evaluate, and improve the accuracy of meter reads, including those that fall within the expected range calculated by CC&B.

Recommendation 3: AE Management should improve review processes to ensure all system-flagged reads are thoroughly reviewed prior to billing and document in policy how re-reads should be ordered as well as acceptable deviations to the prescribed policy.

Recommendation 4: AE Management should also develop, implement, and monitor a process that ensures the timely identification and communication of potential water leaks to relevant stakeholders.

Recommendation 5: AE Management should develop, implement, and monitor a process that ensures changes to key data fields are recorded, authorized, and monitored.

Cemetery Sales and Administration, November 2014

We found a general lack of oversight of sales and revenue collection by the Cemetery Operations Group. This resulted in errors and inaccuracies in the processing of burial space sales, in the recording of financial transactions, and improper cash handling practices. In addition, we identified a significant violation of the City's cash handling policy.

Recommendation 1: PARD should provide an adequate monitoring and oversight structure for the Cemetery Operations Group to ensure sales and administrative responsibilities are successfully executed.