

Proposal for a Boulder Independent Operational Auditor

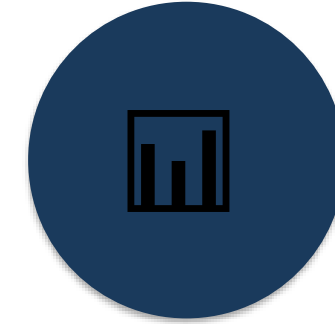


Why an Independent Operational Auditor?



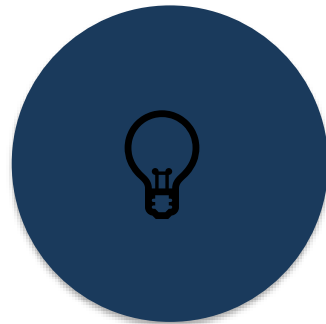
True Independence

Reports directly to City Council and the Audit Committee — not the City Manager. Improves accountability, transparency and public trust.



Objective Program Evaluation

Assesses whether city programs actually achieve their stated goals and deliver value — using facts, not department self-reporting.



Identifies Hidden Costs

Uncovers waste and inefficiencies, deferred maintenance backlogs, unreported spending, and budget understatements before they compound into costly crises.



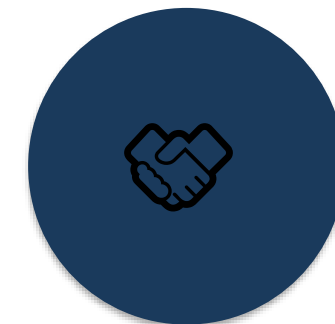
Mirrors Best Practice

Large and small cities across the country use independent operational auditors as standard good governance including direct peer cities like Palo Alto, College Station and Gainesville.



Pays for Itself

One finding amounting to less than 0.2% of Boulder's ~\$520 million budget covers the entire annual cost of an independent auditor function.



Builds Public Trust

Independent findings replace self-reporting with verified transparency — giving residents genuine confidence in how their taxes are used.

What's Working – and What Could Be Improved

CURRENT STRENGTHS

- ✓ Annual independent financial audit
- ✓ Audit committee
- ✓ Internal audit function

CURRENT GAPS

- ☐ No independent performance auditing
- ☐ No direct reporting to council
- ☐ No formal public reporting or follow up



Key Takeaway - Boulder has financial oversight but lacks independent operational oversight.

What a City Auditor Delivers

QUESTIONS A CITY AUDITOR COULD ANSWER

- Are programs working?
- Are taxpayer dollars producing intended results?
- Are there better ways to deliver services?
- Are recommendations implemented?

WHAT PERFORMANCE AUDITS PRODUCE

- Risk assessments
- Capital project evaluations
- Operational reviews
- Budget analysis
- Public reporting
- Recommendation tracking



Key Takeaway - A performance audit answers questions that a financial audit won't.

Why Independence Matters

ALLOWS ACCOUNTABILITY TO THE VOTERS

- Direct report to Audit Committee
- 2 council members + 3 community members
- Community majority with relevant expertise
- Sets audit focus and objectives

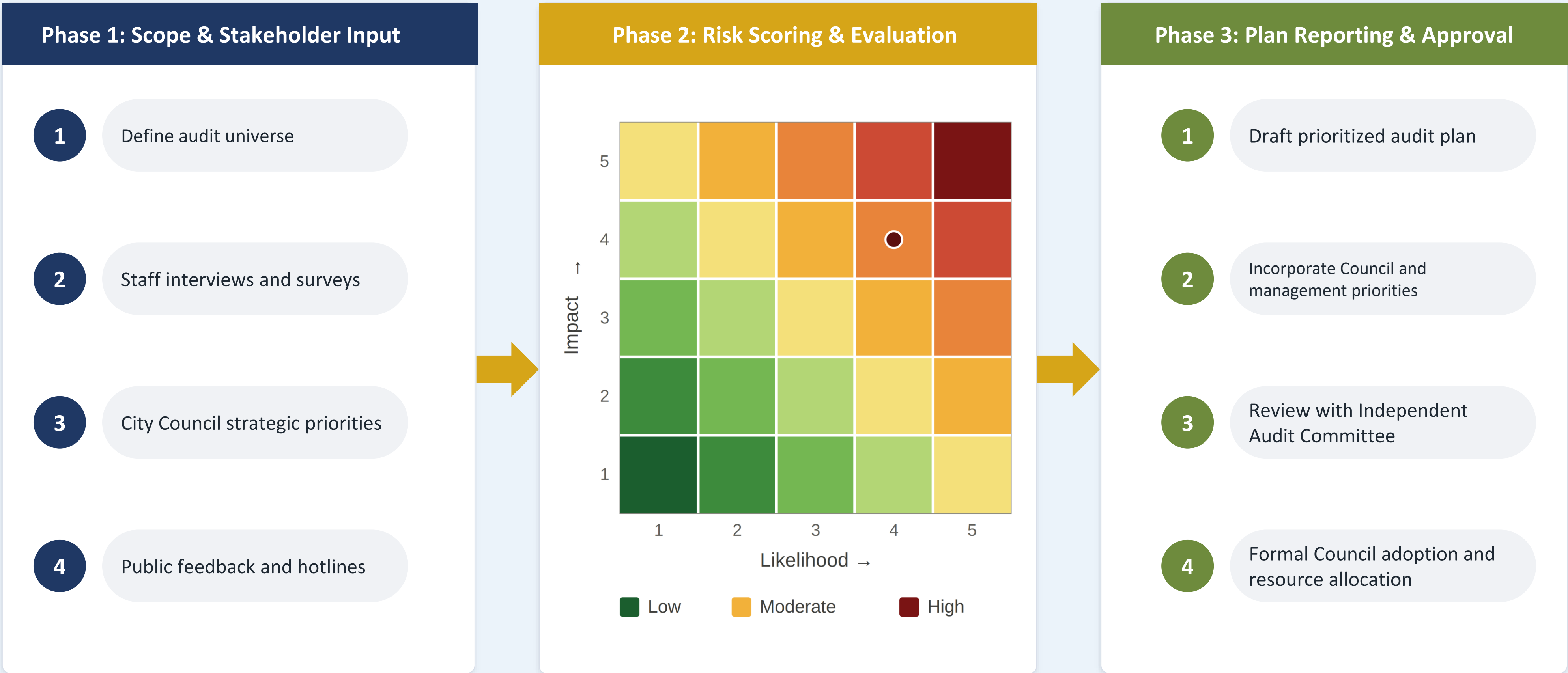
PROVIDES FULL TRANSPARENCY

- Guaranteed access to records and staff
- Compliance with accounting and audit standards
- Peer review every 3-5 years
- Public reporting of results



Key Takeaway - Independent auditing provides objective answers.

Key Function: Conducting Risk Assessments



Key Takeaway – A matrix-driven scoring model keeps the audit plan objective, defensible and easy to explain to council.

Key Function: Performing Operational Audits

PLANNING

- 1 Audit Survey**
Gather background, assess risks and internal controls, set scope, objectives and methodology
- 2 Entrance Conference**
Kickoff meeting; auditor explains reasons for audit, addresses concerns, identifies key contacts and liaison
- 3 Fieldwork Plan**
Plan how evidence will be obtained and evaluated

INFORMATION GATHERING

- 4 Fieldwork**
Collect evidence to support conclusions
- 5 Post-Fieldwork Conference**
Discuss findings with management and have constructive discussion on areas for improvement
- 6 Exit Conference**
Share draft report with management; Discuss management comments and confirm accuracy
- 7 Management Response**
Management provides written response to audit recommendations

REPORTING

- 8 Post-Audit Meeting**
Audit and management meet before Audit Committee meeting to ensure alignment on presentation
- 9 Audit Committee Review**
Report reviewed for clarity and balance; Management provides context for findings and action plan
- 10 Public Release**
Report distributed to officials and public for transparency and accountability
- 11 Followup Review**
Confirm audit recommendations were implemented

Key Takeaway – A defined three-phase process keeps audits thorough, transparent and actionable.

How Peer Cities Structure Their Audit Offices

Boulder Proposal

Annual Budget ~\$0.9 million

Office Size 3-4 FTEs

Auditor Reports To Audit Committee

Audit Committee Makeup 2 council + 3 citizen appointees

Peer Review Every 3 years per GAGAS standard

Peer City Comparisons

College Station, TX (pop 125,000)
Appointed position. Reports to Audit Committee. 2 FTEs plus 2-3 graduate school interns from college business program. Annual budget ~ \$0.5 million.

Gainesville, FL (pop 150,000)
Appointed position. Reports to Audit Committee. 5 FTEs. Annual budget ~ \$0.9 million.

Cambridge, MA (pop 120,000)
Appointed position. Reports to Audit Committee. 8 FTEs. Annual budget ~ \$1.0 million.

Palo Alto, CA (pop 70,000)
Appointed position. Reports to Audit Committee. Outsourced to 3rd party firm. Annual budget ~ \$1.0 million.

Kansas City, MO (pop 525,000)
Appointed position. Reports to Audit Committee. 10 FTEs. Annual budget ~ \$1.1 million.

Key Takeaway – Peer cities invest roughly \$1.0 million annually to ensure good governance.

What Independent Auditors Have Uncovered

\$1.4B

Portland, OR

Infrastructure backlog
brought to light

\$279M

Austin, TX

Unjustified consulting
spend identified

\$67M

Kansas City, MO

Budget understatement
surfaced

\$40M

Berkeley, CA

Non-competitive contracts
identified

Additional Documented Findings

City	Findings	Amount
San Diego, CA	Police overtime findings	\$50.8 million
Denver, CO	Previously unreported homelessness spending	\$20.0 million
Rocky Mount, NC	Casino land acquisition issues	\$17.2 million
Atlanta, GA	Improper pension payments	\$1.8 million
Multnomah Co, OR	Annual cell phone savings	\$0.3 million

Key Takeaway - Even a small independent audit office can return substantial ROI.

Addressing the Objections

1

We already have an Auditor

Boulder's current auditor performs financial and compliance audits — verifying money was spent as authorized. An Independent Operational Auditor asks: did that spending achieve its intended outcomes? These roles are complementary, not redundant.

2

We already track city program success

City departments self-report on their own programs. Independent operational auditing provides objective third-party evaluation — the same reason companies use outside auditors even with internal finance teams. Self-reporting is not verification.

3

We can't afford the office

At ~\$0.9M/year, costs less than 0.2% (that is one fifth of one percent) of Boulder's budget. It should pay for itself many times over. Oakland documents \$4–\$5 returned per \$1 invested. The real fiscal risk is not having independent oversight.

4

We don't have the legal authority to hire a City Auditor

City Charter Article II, Section 12 authorizes Council to appoint an auditor. Council can establish the office through an ordinance defining authority, independence and responsibilities.

Key Takeaway – the value of an independent auditor is clear; the cost is minor, and Council already has the authority.

Next Steps



Key Takeaway – Once the enabling ordinance is adopted, the process for hiring an auditor can be relatively quick.

The residents and taxpayers of Boulder deserve transparent and accountable governance.



Trust But Verify

Independent oversight ensures taxpayer money achieves its intended purpose — verified fact, not departmental self-reporting.



Honest, Balanced Budgets

Hidden deferred maintenance and unreported spending threaten fiscal health. An auditor brings them into the open before they become crises.



Accountability to Voters

Residents elected Council to govern responsibly. An independent auditor gives Council the factual tools to confirm that is happening.

ADDENDUM: CASE STUDIES

Sample Risk Assessments

Sample Operational Audit Reports

Case Study: College Station 2025 Risk Assessment

2025 Identified Topics

Table 1: Potential Audit Topics by Source of Identification

Potential Audit Topics (ranked in order of risk)	Input from Council	Council Meeting Review	Input from Management	Previously Identified Risk
1. Capital Improvement Projects	✓	✓	✓	✓
2. Fleet Management	✓		✓	✓
3. Preferred Access Agreement	✓		✓	✓
4. Tourism Funding & Operations	✓	✓	✓	✓
5. Outside Agencies	✓	✓	✓	✓
6. Economic Development	✓	✓	✓	✓
7. Municipal Court Operations	✓		✓	✓
8. Utility Billing			✓	✓
9. Commodity Purchases			✓	✓
10. Hotel Occupancy Tax			✓	✓
11. Aquatics Program	✓			✓
12. Public Safety Dispatch	✓			✓

Risk Scoring and Audit Objectives

1. **Capital Improvement Projects (CIP):** The City's FY26 CIP budget totals nearly \$84 million, with an operations and maintenance budget of \$390 million, reflecting a major investment in infrastructure and development. Given the scale, efficient project delivery and cost control are critical to maximizing taxpayer value. CIP is also responsible for facilities maintenance, which was identified as a potential risk by city leadership.
- Potential Audit Objectives:**
- Assess project timelines and identify causes of delays.
 - Evaluate planning, procurement, and contractor oversight practices.
 - Benchmark project management practices against industry standards.
 - Compare project costs and schedules with peer municipalities to gauge efficiency
- Risk Considerations:** The risk is considered high due to the substantial financial commitment involved. In addition, vendor selection, contract oversight, utility infrastructure planning, and drainage/flood mitigation were recurring themes in Council meeting reviews, all of which directly relate to CIP-related risks. Direction was also given that, if the FY25 plan were completed ahead of schedule, we would begin this audit in FY25. Otherwise, it would be carried forward to the FY26 Audit Plan.

2026 Audit Plan

- Proposed Fiscal Year 2026 Audit Projects.** Based on the results of this risk assessment, four projects are recommended for inclusion in the Fiscal Year 2026 Audit Plan:
1. **Capital Improvement Projects (CIP):** Addressing risks related to project cost, scheduling, vendor selection, and infrastructure planning.
 2. **Fleet Management:** Reviewing asset utilization, replacement practices, and preventive maintenance in light of significant fleet investments.
 3. **Annual ERP Audit – Roles and Permissions:** Continued annual review of access controls and segregation of duties in the City's enterprise system.
 4. **Cybersecurity Follow-Up (non-audit service):** Advisory review of prior network security audit recommendations, with focus on potential ongoing vulnerabilities and actions to reduce exposure.

- Citywide Risk Assessment conducted every 2-4 years identifies potential future audit topics based on council and staff interviews, reviews of council meeting discussions, and prior risk assessments.
- Each topic is evaluated for risk and impact and potential audit objectives identified.
- On annual basis, Audit Committee approves selection of audits from Risk Assessment to be completed during the year.
- Audit topics that aren't selected will be considered for subsequent year Audit Plans.

Collaborative Process – not Combative!

Definition of an Audit: An audit is a systematic, objective examination of records, operations, or programs to determine whether they are being carried out in accordance with established laws, regulations, policies, and best practices. Audits provide assurance on the effectiveness, efficiency, compliance, and integrity of City operations.

What an Audit is Not: An audit is not designed to set policy, manage day-to-day operations, or resolve political or strategic disputes. Matters of governance, policy direction, or subjective preferences may be important risks, but they are outside the scope of an audit review.

Key Takeaway - A structured, evidence-based risk assessment process — not politics — determines the audit plan.

Case Study: College Station Roadway Maintenance Fee Audit

What We Found

Why We Did This Audit

At the request of the City Council Audit Committee, a review of the Roadway Maintenance Fee was included in the Fiscal Year 2025 Audit Plan. The fee was created to provide a dedicated funding source for preserving City streets and is assessed to utility customers each month based on property use.

As of July 2025, the Roadway Maintenance Fee applies to over 50,000 accounts, including approximately 1,000 commercial accounts billed using a tiered structure based on traffic generated. Annual revenues exceeded \$6.7 million in FY24, with over \$40 million in expenditures from FY17 through FY24.

What We Did

We evaluated whether the Roadway Maintenance Fee complies with legal requirements, is fairly and accurately assessed, and whether revenues are used exclusively for their intended purpose.

Legal analysis was conducted in coordination with the City Attorney. Benchmarking was performed against Texas cities with similar programs. We reviewed a statistically valid sample to evaluate fee assessment. We also analyzed formal appeals submitted since the program's inception. Control processes were evaluated through interviews, process walkthroughs, and documentation review.

Legal Standards Appear to Be Met.

The Roadway Maintenance Fee appears to satisfy the legal criteria for a municipal user fee rather than a tax, based on its cost-recovery design, defined public purpose, alignment with service costs, and the availability of exemptions and appeals. Revenues are deposited into a restricted-use fund dedicated to transportation-related expenses, and both revenues and expenditures have remained closely aligned over time, with modest and stable fund balances – indicating the fee is not used to generate surplus revenue.

Few Appeals Have Been Submitted.

Since the Roadway Maintenance Fee's implementation in 2017, only 21 formal appeals have been submitted – an overall rate of 0.043%. Nearly all were concentrated in the program's early years. This low volume may reflect limited public awareness or minimal financial incentive to appeal, though it could also suggest that staff have been proactive in addressing systemic issues – a conclusion supported by some evidence. Most appeal decisions aligned with supporting documentation, but two approvals lacked justification.

Fund Revenues Are Spent Appropriately.

A review of 189 Roadway Maintenance Fund transactions – accounting for 59% of total fund expenditures to date – found all spending to be in full compliance with allowable uses under City ordinance and applicable federal guidelines. The majority of expenditures supported contracted services for curb, gutter, and asphalt overlay work. No instances of noncompliant or improper spending were identified.

Risks Exist in Commercial Fee Assessment.

Residential Roadway Maintenance Fee assessment is relatively straightforward and consistent; however, commercial tier assignments showed higher risk for misclassification. Our analysis found widespread inaccuracies in commercial fee tier assignments – potentially affecting up to 297 accounts and \$288,000 in charges in FY24. These discrepancies likely resulted from outdated assumptions on land uses or errors made by the consultant who assisted the City during the Roadway Maintenance Fee's initial rollout. Additional inconsistencies were identified in applying the fee for multi-tenant properties and City-owned parks.

Key Takeaway – Independent audits are a tool to reassure the public that city policies are implemented and compliant.

Case Study: College Station FMLA Administration Audit

What We Found

Why We Did This Audit

Based on the direction given by the Audit Committee, a review of Human Resources (HR) administration of Family and Medical Leave (FML) was included in the Fiscal Year 2025 Audit Plan. Effective administration of FML ensures compliance with federal regulations and City policy while preventing errors and potential misuse.

From 2022 to 2024, 270 employees used FML-coded leave, averaging 90 employees per year. Over three years, payroll records showed over 43,000 hours of FML-coded leave, or about 14,500 hours annually. The total compensable value of this leave was just over \$1.2 million during this period, averaging nearly \$420,000 per year.

What We Did

We evaluated the administration of FML by reviewing policies, accrual and time entry records, and supporting documentation, focusing on eligibility, unpaid leave usage, benefit accrual suspensions, and compliance with entitlements. Our audit included interviews with HR and IT staff to understand operational challenges and system limitations. We conducted process walkthroughs with HR to document FML administration and assess internal controls against best practices and regulatory requirements. Additionally, we reviewed a sample of 30 FMLA protected absences to evaluate compliance, timeliness of key steps, and potential misuse, including patterns of leave use and secondary employment during FML-coded absences.

Manual Processes Create Inefficiencies and Increase Compliance Risks: The City’s FML administration relies on manual processes, requiring coordination between HR, Payroll, department supervisors, and employees. Multiple timekeeping systems and reliance on manual data entry increase the risk of errors, delays, and inconsistencies in tracking FML usage. Additionally, limitations in Tyler Munis, the City’s Enterprise Resource Planning system, prevents real-time access to some FML data, requiring HR to review payroll and timekeeping records retroactively, making it more difficult to ensure accurate leave management.

Errors in Eligibility Verification, Entitlement Tracking, and Leave Coding: Due to the manual nature of FML administration, errors have occurred in eligibility verification, entitlement tracking, and leave coding. A review of FML-coded leave records from 2021 through 2024 found that 27 employees received FML-coded leave before meeting eligibility requirements, and 12 employees exceeded their entitlement, resulting in 704 excess FML-coded hours across 89 workdays. Additionally, eight employees were placed on FML-coded Leave Without Pay despite having available paid leave, which conflicts with City policy. These errors were primarily caused by system limitations, manual data entry mistakes, and inconsistent tracking of FML-coded Workers’ Compensation leave.

Errors in FML Coding During Winter Break: The City formalized a week-long winter break in 2023 holiday schedule, during which some departments cease operations. FML entitlements should not be deducted for employees who are not scheduled to work during this closure. However, 12 employees had 40 hours each incorrectly counted against their FML entitlement for 2023 and 2024, resulting in a total miscalculation of 480 hours. The absence of a centralized tracking system for winter break eligibility contributed to these errors.

Potential Misuse of Intermittent Bonding Leave: Under the Family and Medical Leave Act (FMLA), intermittent bonding leave after a continuous FML absence is allowed only if the employer agrees. A review of firefighter leave records found that 19 employees took intermittent FML-coded bonding leave weeks or months after returning to work from continuous leave, despite no supporting documentation justifying the additional leave in some cases. Their FML pay codes remained active for up to 12 months post-birth or adoption, increasing the risk of extended leave beyond the approved period. While HR communicates with departments on FML usage, oversight and system challenges may limit its ability to track ongoing usage.

Key Takeaway – Independent audits provide critical insights to management about effectiveness of processes and controls.

Thank you for considering our proposal.



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