



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

January 15, 2008

The Honorable City Council
Attn: Finance Committee
Palo Alto, California

Auditor's Office Quarterly Report as of December 31, 2007

RECOMMENDATION

The City Auditor's Office recommends the Finance Committee review and recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of December 31, 2007.

SUMMARY OF RESULTS

In accordance with the Municipal Code, the City Auditor prepares an annual work plan for approval by the City Council, and issues quarterly reports to the City Council describing the status and progress towards completion of the work plan. This report provides the City Council with an update on the activities of the Office as of December 31, 2007.

We issued the following reports to the City Council since our last status report in October 2007:

- Informational report on Q2-2007 Palo Alto sales tax (Dec-2007)
- 6th Annual Service Efforts and Accomplishments Report FY 2006-07 (Jan-2008)

Also this quarter:

- In Nov-2007, the City received the 2006 Voice of the People Award as a result of last year's citizen survey conducted as part of the annual Service Efforts and Accomplishments Report issued in Dec-2006.

Our revenue audits continue to yield benefits to the General Fund. The City has received \$79,999 during the fiscal year to date as a result of our in-house and contracted sales tax audits (our goal is \$235,000 in audit recoveries). This does not include audit findings that were assessed, but have not yet been collected.

In addition to our on-going assignments, the following projects are in process (with target completion dates):

- Review of ethics policies (scheduled for Policy and Services Committee on January 23, 2008)
- Infrastructure report card (Spring-2008)
- Audit of vehicle maintenance and replacement (Spring-2008)
- Audit of ambulance billing and revenue collection (Spring-2008)

Information on the status of each assigned project is attached (pages A-1 through A-4). On behalf of the Auditor's Office, I would like to express my appreciation to City staff for their cooperation and assistance during our reviews.

Respectfully submitted,

Sharon W. Erickson

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City Auditor

Attachments:

- Status of Audit Projects as of December 31, 2007

Status of Audit Projects as of December 31, 2007

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
AUDIT ADMINISTRATION, FOLLOW-UP, AND OTHER RESPONSIBILITIES			
<p>1. Annual audit work plan and quarterly status reports – The Auditor’s Office submits quarterly reports to the City Council outlining project status and progress towards completing the assignments on this annual work plan.</p>	On-going	<p>In Oct-2007, the Finance Committee recommended and the City Council approved the FY 2007-08 work plan.</p> <p>Quarterly reports have been issued as of September 30 and December 31, 2007.</p>	Next quarterly status report: Apr-2008.
<p>2. Annual audit recommendation status report – The Municipal Code requires the City Auditor to issue an annual report on the implementation status of recommendations from recently completed audits. We also meet with the departments involved during the year to discuss progress towards implementing open audit recommendations.</p>	On-going	<p>In Oct-2007, the Finance Committee considered the annual audit recommendation status report as of June 30, 2007. The Committee continued discussion of the report to December 18, 2007, and accepted the report at that time. The report summarized the status of 91 recommendations including 5 completed, 70 partly implemented, and 16 not started as of June 30, 2007.</p>	
<p>3. Meeting attendance – To facilitate internal communication and coordination of efforts, the City Auditor attends:</p> <ul style="list-style-type: none"> a. <i>City Manager’s weekly executive staff meetings.</i> b. <i>Utility Risk Oversight and Coordinating Committee (UROCC)</i> – Since issuance of our <i>Assessment of Utility Risk Management Procedures</i> in Jul-2002, the City Auditor has acted as an advisor to the UROCC. c. <i>Refuse hauling contract request for proposals committee</i> – As recommended in our Audit of the Palo Alto Sanitation Company Contract, the City Auditor is acting as an advisor to the City Manager’s interdepartmental committee to assist in the request for proposal process. Target completion date: Jun-2008. 	On-going		

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
<p>REVENUE AUDITS</p> <p>[Note: We conduct our revenue audits in accordance with applicable government auditing standards, and report the results of our revenue audits in this report. In accordance with state law, confidential information about specific businesses is not included.]</p>			
<p>4. Sales tax allocation reviews (on-going) – Sales tax represents about 15%, or \$22 million, of projected General Fund revenue for 2007-08. We contract with MuniServices (MMC) for quarterly sales tax audit and information services, and we also conduct sales tax audits in-house. The purpose of these audits is to identify misallocations of local sales tax. In addition, MuniServices prepares the quarterly sales tax information reports that are provided to the City Council as information items. The MuniServices contract expires in Mar-2008, and we will be requesting proposals for sales tax audit and information services.</p>	<p>On-going</p>	<p>MuniServices provides quarterly sales tax information reports including the reports summarizing Q1-2007 sales (distributed in Sep-2007) and Q2-2007 sales (distributed in Dec-2007).</p> <p>In the first quarter of FY 2007-08, the City received \$18,118 in sales tax recoveries related to misallocation of tax from 4 Palo Alto companies. This amount is the result of audits conducted earlier by MMC and the City Auditor's Office.</p> <p>In the second quarter of FY 2007-08, the City received \$61,881 in sales tax recoveries related to misallocation of tax from 5 Palo Alto companies. This amount is the result of audits conducted earlier by MMC and the City Auditor's Office. In addition, potential misallocations from 35 companies are pending resolution by the State Board of Equalization.</p> <p>Sales tax recoveries year-to-date: \$79,999</p>	<p>Next quarterly sales tax information report: Feb-2008</p>
<p>5. Property tax allocation review – Property tax represents about 15% of General Fund revenues, or about \$22 million per year. Our review will assess the adequacy of controls to ensure that regular and supplemental property tax allocations are accurate.</p>	<p>Not started</p>		<p>Target completion date: TBD</p>
<p>FINANCIAL AUDITS AND PROCEDURAL REVIEWS</p>			
<p>6. Annual external financial audit (contracted audit service) – The City Charter requires that the City Council engage an independent certified public accounting firm to conduct the annual external audit.</p>	<p>On-going</p>	<p>In Dec-2007, Maze & Associates issued an unqualified (clean) audit opinion on the audited financial statements as of June 30, 2007.</p>	

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<p>7. Review of ethics policies – The purpose of this project is to review procedures for ascertaining and handling potential conflicts of interest among city employees, and assess the need for an ethics policy.</p>	In process	Draft audit report has been issued for management response.	Target completion date: January 23, 2008 (Policy & Services Committee)
<p>8. Controls review of SAP upgrade and Utilities module implementation – The implementation of SAP upgrades over the next 16 months will affect the City's business operations. As we did with the original SAP implementation, the Auditor's Office will monitor the implementation, review proposed new workflows, and provide advice on the adequacy of controls in the new system.</p>	Not started		Target completion date: Jun-2008 (1 st phase)
PERFORMANCE AUDITS AND SPECIAL PROJECTS			
<p>9. Infrastructure report card – The purpose of this project is to assess the impact of increased capital spending on the City's infrastructure, including utilities.</p>	In process	We are in the fieldwork phase of this project – reviewing available information about Palo Alto's level of spending, and summarizing the book value of Palo Alto's infrastructure assets.	Target completion date: Spring-2008
<p>10. Service Efforts and Accomplishments (SEA) Report – This is the 6th annual SEA report. The purpose of SEA reporting is to strengthen public accountability and help improve government efficiency and effectiveness. Palo Alto's SEA report provides data about the costs, quality, quantity, and timeliness of City services. It includes a variety of comparisons to other cities, and the results of an annual citizen survey (the National Citizen Survey).</p>	Completed	Report issued Jan-2008. The report is scheduled to be presented to the City Council on January 14, 2008.	
<p>11. Audit of vehicle replacement and maintenance fund – The purpose of this review is to evaluate economy, efficiency and effectiveness of fleet and equipment replacement and maintenance operations.</p>	In process	We are in the fieldwork phase of the audit.	Target completion date: Spring-2008
<p>12. Audit of ambulance billing and revenue collection – The Palo Alto Fire Department responds to almost 4,000 medical/rescue calls and transports from 2,000 to 3,000 individuals annually. The purpose of this review would be to assess the overall efficiency and cost effectiveness of ambulance billing and collections.</p>	In process	We are in the preliminary survey phase of the audit.	Target date: Spring-2008
<p>13. Police community survey – The Auditor's Office will conduct a second survey of drivers of vehicles that are stopped to determine how they feel they were treated during the stop, and a comparison survey of persons requesting service.</p>	Not started		Target date: TBD

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<p>14. Wastewater Treatment Fund – The Regional Water Quality Control Plant provides services to Mountain View, Los Altos, Los Altos Hills, Stanford, and East Palo Alto. With proposed revenues of \$20 million, proposed expenditures of \$21 million, a \$45 million five-year capital plan, and 70 full-time equivalent employees, this is one of the areas consistently targeted by our annual citywide risk assessment model. The purpose of our audit is to review the cost-sharing agreements and allocation of charges to partner agencies.</p>	Not started		Target date: TBD
<p>15. Audit of purchasing card transactions – The purpose of this audit is to determine the adequacy of controls over purchasing card transactions, and to assess compliance with existing guidelines and procedures.</p>	Not started		Target date: TBD