



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

April 21, 2009

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

Auditor's Office Quarterly Report as of March 31, 2009

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 March 31, 2009.

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 March 31, 2009.

We completed the following reports since our last status report as of December 2008:

- Annual Service Efforts and Accomplishments Report 2007-08 (Jan-2009)
- Audit of Ambulance Billing and Revenue Collection (Feb-2009)
- External Quality Peer Review (Feb-2009)
- Informational Report of Sales Tax Digest Summary for Third Quarter Sales (Mar-2009)

Our revenue audit monitoring continues to yield benefits to the General Fund. The City received **\$75,396** for combined first, second and third quarters FY 2008-09 to date as a result of our in-house and contracted sales tax audits (our annual FY goal is \$150,000 in audit recoveries). This does not include audit findings that were assessed, but have not yet been collected.

Also:

- The Association of Local Government Auditors (ALGA) named the *Audit of Employee Ethics Policies* as an Honorable Mention for the 2008 Knighton Award. The award will be presented to the City Auditor's Office at the ALGA conference in May.
- The City Auditor's Office participated in a nationwide conference call with other local government auditors and the federal General Accountability Office to discuss the accountability elements of the American Recovery and Reinvestment Act (ARRA). The City Auditor provided updates to the City Council and Executive Leadership Team and will be participating in upcoming meetings with City staff to discuss oversight controls of the stimulus funds.

- Ian Hagerman, Senior Auditor, joined the City Auditor's Office in March 2009.
- In response to the comments we received at the Finance Committee meeting last December, the City Auditor's Office followed up with City departments on outstanding recommendations in preparation for our year-end status report. The City Auditor is also preparing a list of audit recommendations related to potential budget reductions to discuss with the City Manager for consideration in the budget process.
- The City Auditor's Office received and followed up on public inquiries. We also developed a tracking mechanism and drafted a process for handling these inquiries.

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

- Audit of Vehicle Maintenance and Replacement (Summer - 2009)
- Monitoring of SAP implementation (June 2009 Phase II)
- Citywide Cash Handling (TBD)

Information on the status of each assigned project is attached (pages A-1 through A-5). 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,



Lynda Flores Brouchoud
City Auditor

Attachments:

- Status of Audit Projects as of March 31, 2009

Status of Audit Projects as of March 31, 2009

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
AUDIT ADMINISTRATION, FOLLOW-UP, AND OTHER RESPONSIBILITIES			
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.	Completed	FY 2008-09 1 st Quarterly Report issued Oct 2008. 2 nd Quarterly Report issued Mar 2009. 3 rd quarter completed with this report.	Next quarterly status report: July - 2009
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.	Completed	Report issued Dec -2008	
3) External Peer Review – The external peer review (conducted once every three years) evaluates the quality control of the Auditor’s Office and its compliance with Government Auditing Standards (GAS)	Completed	Peer Review conducted the first week in Feb-2009	
4) Meeting Attendance – To facilitate internal communication and coordination of efforts, the City Auditor attends: <ul style="list-style-type: none"> a. <i>City Manager’s weekly executive leadership team meetings.</i> b. <i>Utility Risk Oversight and Coordinating Committee (UROCC) – Since issuance of our Assessment of Utility Risk Management Procedures in Jul-2002, the City Auditor has acted as an advisor to the UROCC.</i> 	On-going On-going		

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
REVENUE AUDITS AND MONITORING			
<p>5) Sales Tax Allocation Reviews – Sales tax represents about 15%, or \$22 million, of projected General Fund revenue for FY 2008-09. The Auditor’s Office contracts with MuniServices for quarterly sales tax recovery and information services, and we also conduct sales tax monitoring in-house. The purpose of these reviews 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 informational items.</p> <p>We have renewed the contract with MuniServices for one year. It expires in March 2010, and has an option to renew for one additional year by mutual consent.</p>	On-going	<p>In the first quarter of FY 2008-09, the City received \$36,032 in sales tax recoveries related to misallocation of tax from 8 Palo Alto companies.</p> <p>In the second quarter of FY 2008-09, the City received \$24,433 in sales tax recoveries related to misallocation of tax from 8 Palo Alto companies. These amounts are the result of audits conducted earlier by MuniServices and the City Auditor’s Office.</p> <p>In the third quarter of FY 2008-09, the City received \$14,931 in sales tax recoveries related to misallocation of tax from 5 Palo Alto companies. These amounts are the result of audits conducted earlier by MuniServices and the City Auditor’s Office.</p> <p>In addition, potential misallocations from 19 companies (2 MuniServices and 17 City of Palo Alto) are pending resolution by the State Board of Equalization which has a six-month backlog.</p> <p>Sales tax recoveries year to date: FY 2008-09 \$75,396</p> <p>(MuniServices- \$21,919 and the City Auditor’s Office - \$53,477)</p>	<p>Next quarterly sales tax information report: May-2009</p>

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
FINANCIAL AUDITS AND PROCEDURAL REVIEWS			
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.	Completed	FY 2007-08 Report issued Dec - 2008 for Maze & Associates audit work on the June 30, 2008 financial statements & internal controls. In Mar – 2009 Maze & Associates began interim audit work in preparation for the audit of the June 30, 2009 financial statements.	FY 2007-08 completed Dec – 2008 Begin work on FY 2008-09
7) Controls Review of SAP Upgrade and Utilities Module Implementation – The City’s SAP upgrade is occurring in two phases – Phase I on Employee Self-Service/Management Self-Service and Phase II on Utilities. Phase I was completed July 2008. The Auditor’s Office has reviewed general controls throughout the upgrades.	On-going		Phase II Target completion date: Aug - 2009
8) Accounts Receivable Write-Off of Utilities Billing – As the Utilities Department implements the SAP Utilities module, the Auditor’s Office is evaluating the outstanding accounts receivable balance from the prior system to identify potential recoveries.	Completed	Reported in the Mar-2009 quarterly report	
9) Police Investigative Fund (NEW) In accordance with the Police Investigative Fund procedures, the City Auditor will conduct a surprise, external audit of the fund. The fund is used to cover certain costs incurred during investigations.	Not Started		Target completion date: June-2009
PERFORMANCE AUDITS AND SPECIAL PROJECTS			
10) Service Efforts and Accomplishments (SEA) Report – This is the 7 th 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).	Completed	Report issued Jan-2009	

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
11) 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.	Completed	Report issued Feb-2009	
12) Audit of Vehicle Replacement and Maintenance Fund – The purpose of this review is to evaluate the efficiency and effectiveness of fleet and equipment replacement and maintenance operations.	In process	We are in the fieldwork phase of the audit.	Target completion date: Summer-2009
13) 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.	Not started		Target completion date: TBD
14) 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.	Not started		Target completion date: TBD
15) Citywide Cash Handling (NEW) – On July 7, 2008, the City Council voted to have the City Auditor study citywide cash handling and travel reimbursements, oversight procedures, and the City Auditor's history of audits on cash services.	In process	We are in the preliminary survey phase of the audit.	Target completion date: TBD
16) Prospective Analysis of Bond Measure Proceeds (NEW) – (With the November 2008 voter approval of Measure N) the City will be preparing to issue general obligation bonds to rebuild the Mitchell Park Library and adjacent community center, and renovate the Main and downtown libraries. This audit will prospectively evaluate controls for the use of the bond funds to ensure the funds are used efficiently and in compliance with federal regulations for the use of tax-exempt bond funds.	Not started		Target completion date: TBD

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
17) Utilities Department (NEW) – Several of the highest risk areas identified in the Citywide Risk Assessment pertain to the Utilities Department. This audit will conduct a preliminary survey of the Utilities Department and develop an audit scope to identify opportunities for improvements in efficiency and effectiveness.	Not started		Target completion date: TBD