



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 22, 2012

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of June 30, 2012

The City Auditor's Office recommends acceptance of the Auditor's Office Quarterly Report as of June 30, 2012. At its meeting on September 11, 2012, the Policy and Services Committee approved and unanimously recommended the City Council accept the report. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Jim Pelletier
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2012 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (September 11, 2012) (PDF)

Department Head: Jim Pelletier, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 11, 2012

The Honorable City Council
Attention: Policy & Services Committee
Palo Alto, California

Auditor's Office Quarterly Report as of June 30, 2012

RECOMMENDATION

The City Auditor's Office recommends the Policy and Services Committee review and recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of June 30, 2012.

SUMMARY OF RESULTS

In accordance with the Municipal Code, the City Auditor prepares an annual work plan 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 fourth quarter and end of year report for FY 2012.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "JPelletier".

Jim Pelletier
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2012 (PDF)

Department Head: Jim Pelletier, City Auditor



CITY OF
**PALO
ALTO**

Fourth Quarter / End of Year Report

Fiscal Year 2012



Office of the City Auditor

"Promoting honest, efficient, effective, and fully accountable city government."

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INTRODUCTION

Overview of the Office of the City Auditor (OCA)

The OCA conducts performance audits of City departments, programs, and services. Performance audits provide the City Council, City management, and the public with independent and objective information regarding the economy, efficiency, and effectiveness of City programs and activities. Our goal is to help the City achieve its strategic, operational, reporting, and compliance objectives using a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of the City’s risk management, control, and governance processes. Through our audit activities, the OCA supports the key governance roles of Oversight, Insight, and Foresight as described below:

Oversight	Insight	Foresight
OCA provides oversight of City management on behalf of the City Council and the residents of Palo Alto by evaluating whether departments have established efficient and effective means of doing what they are required to do, spending funds for intended purposes, and complying with applicable laws and regulations.	OCA provides insight to assist City management by assessing the adequacy of internal controls; sharing best practices and benchmark information; and looking across departments to help management identify opportunities to borrow, adapt, or re-engineer good practices.	OCA helps City management look forward by identifying trends and bringing attention to emerging challenges before they become crises. These issues often represent long-term risks that can sometimes receive low priority for attention where scarce resources drive more short-term focus on urgent concerns.

OCA’s Core Products & Services

Audits – OCA’s core product addressing performance (efficiency and effectiveness), compliance, and information technology matters that provide management with value-added recommendations focused on mitigating risks and improving internal control. Audits are designed to support the achievement of the City’s strategic, operational, reporting, and compliance objectives and the City Council’s priorities.

Service Efforts and Accomplishments (SEA) and Citizen Centric Report (CCR) – The SEA is an annual report that provides data about the costs, quality, quantity, and timeliness of City services. The report includes a variety of comparisons to other cities and the results of a citizen survey. The goal is to provide the residents of Palo Alto, the City Council, City Staff, and other stakeholders with information on past performance to strengthen public accountability, improve government efficiency and effectiveness, and support future decision making.

Prepared in coordination with the annual SEA report, the CCR is intended to be a brief, easy to read document that provides a quick snapshot of the City’s progress over the year. Based on guidance from the Association of Government Accountants, the report is a method to foster innovative means of communication between the City and the public.

Administration of the Fraud, Waste, and Abuse Hotline (Hotline) – The Hotline provides an anonymous mechanism for employees to report fraud, waste, and/or abuse of City resources. The OCA is responsible for partnering with an outside vendor to administer the Hotline and ensure that all calls are reviewed and acted upon by the Hotline Review Committee. The OCA may, as necessary, investigate certain cases. Additionally, the OCA will provide quarterly reporting of Hotline activity to the City Council.

Special Advisory Memorandums (SAMs) – Utilized for time critical engagements including limited assessments, reviews, or evaluations as requested by management or the Council. These services do not typically conform to the rigorous audit standards required for Audits, but allow for important information to be provided to management in a quick, flexible manner and can be focused on singular issues.

Comprehensive Annual Financial Report (CAFR) and Single Audit Report – Each year, the OCA contracts with an independent, certified public accountant to perform both the City’s annual financial audit as well as the annual Single Audit.

Sales and Use Tax Monitoring – The OCA conducts sales and use tax monitoring internally and contracts with an external vendor for quarterly sales and use tax recovery and information services. The purpose of this monitoring is to identify misallocations of local sales and use tax generated by companies doing business in Palo Alto. In addition, the external vendor prepares quarterly sales and use tax summary reports that are provided to the City Council as informational items.

Professional Standards

The OCA must adhere to a set of professional standards in conducting its work. The Palo Alto Municipal Code requires the OCA to adhere to Government Auditing Standards issued by the US Government Accountability Office. These standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the objectives of each audit. The OCA’s compliance with these standards is reviewed every three years by an external firm.

The OCA Team

Jim Pelletier, CIA
City Auditor

Jim has over 14 years of internal audit and business process improvement experience in both the private and public sectors. Prior to joining the City in 2012, Jim was the Chief of Audits for the County of San Diego’s Office of Audits and Advisory Services (OAAS) where he led a team of fourteen professionals in the execution of the annual, risk-based audit plan. Under his leadership, the OAAS received the National Association of Counties 2011 Achievement Award for Accountability & Transparency of ARRA Funds as well as the 2010 Achievement Award for the Management Control Initiative. Additionally, the County received Honorable Mention for the Government Finance Officers’ Association’s (GFOA) Award for Excellence in Government Finance for the Management Control Initiative.

Additional auditing experience was gained from PETCO Animal Supplies, Inc., the California State University (Chancellor’s Office), State Street Corporation, and General Electric. In addition to his Bachelor of Science in Computer Information Systems from Bentley University, Jim graduated from General Electric’s Leadership Development Program, a management training program geared toward leadership development and broad business exposure through cross-functional, rotational assignments and training in Six Sigma process improvement methodologies.

Jim is also a Certified Internal Auditor (CIA) and a member of the Institute of Internal Auditors (IIA). His article titled “Adding Risk Back Into the Audit Process” was published in the August 2008 issue of the IIA’s Internal Auditor magazine and was selected as the John B. Thurston award winner for literary excellence in the field of

Internal Auditing.

Houman Boussina, CIA, CISA, CGAP, CRMA

Senior Performance Auditor

Houman has over seven years of local government audit experience. Houman was a Performance Auditor at the City and County of San Francisco and was promoted to Audit Manager prior to joining the City as a Senior Performance Auditor in June 2010.

Houman has conducted audits covering a variety of subject areas including contract management and compliance, effectiveness and efficiency of business processes and information systems, use of government funds, and investigations. Houman has emphasized use of computer-assisted audited techniques and database analytic procedures in audit work, resulting in high impact audits, such as a 2009 contract compliance audit which led to recuperation of over \$4 million for the City and County of San Francisco and a 2011 information system security audit, which identified serious security vulnerabilities in the City's SAP Enterprise Resource Planning system. These two audits received the prestigious Knighton Award from the Association of Local Government Auditors (ALGA). Since 2010, Houman has also worked on the City's Service Efforts and Accomplishments (SEA) and Citizen-Centric Reports, which have been awarded the Gold Certificate of Achievement in Service Efforts and Accomplishments Reporting and the Certificate of Excellence in Citizen-Centric Reporting from the Association of Government Accountants (AGA).

Houman has a Bachelor of Arts in Applied Sciences from the University of the Pacific and a Master of Science in Accountancy from San Jose State University. Houman is a Certified Internal Auditor (CIA), a Certified Internal Systems Auditor (CISA), and a Certified Government Auditing Professional (CGAP). He also has been awarded by the Institute of Internal Auditors (IIA) the Certification in Risk Management Assurance (CRMA) and the William S. Smith Certificate of Honor for a high score on the CIA examination.

Mimi Nguyen

Senior Performance Auditor

Mimi has over 11 years of accounting, finance, business improvement, and audit experience in both the private and public sectors. As a Controller in the private sector, Mimi developed business strategies to ensure fiscal responsibility. Mimi spearheaded many business process improvements, the most robust being the successful conversion of a fully integrated accounting, billing, project management, and timekeeping software system from cradle to grave. The conversion included conducting a project management needs assessment, implementing an efficiency plan, cleansing and converting large data sets, and developing a collective, collaborative transition plan through implementation. The system conversion received honorable recognition from the software company.

Mimi joined the City in 2006 and has demonstrated a commitment to improving the efficiency and effectiveness of City programs in her roles as a Senior Accountant and Senior Financial Analyst. Mimi participated in compiling and preparing the City's Comprehensive Annual Financial Report (CAFR) and Operating Budget document, which received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting and the California Society of Municipal Finance Officers (CSMFO) Certificate of Award for Excellence in Operating Budgeting, respectively. Since joining the audit team, Mimi has worked on the 2011 SAP Security Audit which received the prestigious Knighton Award from the Association of Local Government

Auditors (ALGA) and the City's Service Efforts and Accomplishments (SEA) and Citizen-Centric Reports, which were awarded the Gold Certificate of Achievement in Service Efforts and Accomplishments Reporting and the Certificate of Excellence in Citizen-Centric Reporting from the Association of Government Accountants (AGA).

Mimi received training in Intermediate and Advanced Governmental Accounting and Budgeting from the Government Finance Officers Association (GFOA) and Governmental Auditing from the Graduate School in Washington D.C. She is currently pursuing the Certified Fraud Examiner (CFE) and Certified Government Auditing Professional (CGAP) certifications.

Yuki Matsuura, CPA, CCSA, CRMA
Senior Performance Auditor

Yuki has over 12 years of professional experience including 8 years as a local government auditor. Prior to joining the City in May 2012, Yuki worked as a Supervising Senior Auditor for the County of San Diego's Office of Audits and Advisory Services (OAAS) where she led a number of audit and advisory service projects while providing hands-on training to audit staff. Yuki was also responsible for Internal and External Quality Assessments and developed innovative solutions to increase efficiency and effectiveness of the internal audit activity. Examples include developing a Management Control Initiative Handbook to provide County management and staff with expert guidance and training to promote risk management; developing standard risk assessment and testing procedures for the Financial Risk Assessment and Controls Project to increase involvement of the process owners; and developing and building standard audit procedures and tools into the Audit Management System to ensure staff compliance with professional standards.

Her diverse professional and educational background formed her strong critical thinking and problem solving skills. After obtaining a bachelor's degree in Education in Japan, she went to work for JIEC Co., Ltd. In Tokyo as a Systems Engineer and received extensive IT training. She later provided IT consulting services to clients in both public and private sectors. She then attended graduate school and obtained a Master of Pacific International Affairs (MPIA) from the University of California, San Diego (UCSD), where she studied how management, public policy, and international interactions shape strategic decision-making. Upon graduation, she joined an inaugural scholarship foundation as a Marketing Coordinator and helped coordinate fundraising, sponsor relations, and a successful inaugural benefit concert. She returned to UCSD and received a Professional Certificate in Accounting before joining the County of San Diego.

Yuki is a Certified Public Accountant (CPA) licensed in California and a member of the American Institute of Certified Public Accountants (AICPA). She is also a member of the Institute of Internal Auditors (IIA) and has Certifications in Control Self-Assessment (CCSA) and Risk Management Assurance (CRMA). Her article titled "Using the Whole Mind for Risk Management" was published in the April 2012 issue of the IIA's Internal Auditor magazine.

Lisa Wehara
Performance Auditor (part-time)

Lisa has auditing and accounting experience in both the public and private sectors. She was previously a senior auditor for the City for four years, and returned part-time in 2004 to primarily identify and correct sales and use tax misallocations to increase the City's revenue (over \$400,000 to date). Lisa also assists wherever needed including providing quality control for the Service Efforts and Accomplishments report and other audit reports to

ensure the reports are adequately supported by documentation.

Prior to joining the City, Lisa audited for five years at government entities including the California State Auditor – Bureau of State Audits, the California State Legislature – Office of the Auditor General, the City and County of San Francisco, and the County of Alameda. Her previous accounting experience was gained at the University of California at Berkeley and other employers. Lisa has earned her certifications as a Certified Public Accountant and Certified Internal Auditor (licenses inactive).

Summary of 2012 Accomplishments

Overview

In FY 2012, the OCA succeeded in our mission of promoting honest, efficient, effective, and fully accountable city government. The City Manager and staff helped us achieve this by agreeing to take action on the 31 recommendations we made in our audit reports. Additionally, our nationally recognized Service Efforts and Accomplishments Report strengthened public accountability and provided information to improve the City's efficiency and effectiveness and to support future decision making.

The audit function is essential to the City of Palo Alto's public accountability. The Office of the City Auditor's independence and accountability, mandated by the City Charter and municipal code, means the public, the Council, and City staff can rely on us for objective information and practical advice. We thoroughly review and analyze City performance to give you the information you need about complex and difficult issues. Taking action on our audit recommendations will help the City to reduce risks and protect its good reputation.

Audits

In Fiscal Year 2012, the OCA completed five Performance Audits with an additional three in process, as summarized below:

Title	Objective(s)	Status	Results/Comments
Service Efforts & Accomplishments / Citizen Centric Report	To provide consistent, reliable information on the performance of City services to: <ul style="list-style-type: none"> Assist users in assessing whether the City is achieving its goals and objectives in an efficient and effective manner Assist the City in meeting its responsibilities to be publicly accountable in the stewardship over public resources 	Completed	These reports provide comprehensive and historical data and analysis that is not available in any other single report in the City. The SEA and CCR are available online or hardcopy from the OCA.

Title	Objective(s)	Status	Results/Comments
Audit of Library Bond Proceeds	Evaluate the controls over the use of the general obligation bond funds to ensure they are used efficiently in compliance with federal regulations for the use of tax exempt bond funds.	Completed	The City has used Library Bond funds appropriately and established oversight processes to help ensure the proper use of bond funds. However, ASD and PWD should formalize policies and procedures to ensure ongoing compliance with Federal and State regulations.
Audit of Purchasing Card Transactions	Determine the adequacy of controls over purchasing card transactions and assess compliance with existing guidelines and procedures.	Completed	While our review found most purchasing card transactions appear to comply with City policy, some improvements could enhance oversight. Additionally, while the City has established purchasing cards as a method of payment for low dollar goods and services, opportunities exist for the City to further increase purchasing card usage and realize additional operational efficiencies.
Utilities Department Risk Assessment	To identify areas of strengths as well as opportunities for improvement within each division of the Utilities Department.	Completed	Worked with an external utilities consultant. Results were incorporated into the OCA Risk Assessment process.
SAP Security Audit	To assess controls required to proper secure SAP.	Completed	The City has not formally adopted and implemented all controls needed to secure SAP and comply with the Payment Card Industry Data Security Standard and other applicable security control frameworks.
Contract Administration Audit (Audit of Contract Oversight)	To assess whether internal controls are effective and adequate to ensure that City contracts are administered in accordance with Municipal Code and relevant policies and procedures. The audit focused on the City's contract with OfficeMax.	In Process (Reporting)	TBD
Utilities Reserves Audit	To determine the appropriateness and adequacy of utilities reserves, reserve policy, reserve guidelines, and its usage.	In Process (Reporting)	TBD

Title	Objective(s)	Status	Results/Comments
Human Resources Employee Benefits	To determine whether the Human Resources Department has adequate controls over employee benefits to ensure that health premiums and administrative fees are calculated and paid accurately for eligible active and retired employees in accordance with applicable labor agreements, laws, and regulations.	In Process (Fieldwork)	TBD

Special Advisory Memorandum (SAM)

The SAM was introduced in 2012 to allow for important information to be provided to the Council and management in a quick, flexible manner. While no SAMs were planned for 2012, an issue was identified that was a good fit for the use of the SAM. Please see the summary below:

Title	Objective(s)	Status	Results/Comments
SAM – Security Vulnerability in the City’s SAP Enterprise Resource Planning System	To inform the City Council of the results of a review of a significant SAP security vulnerability that allowed certain individuals with SAP access to view employee personal information they did not have a business need to know.	Complete	OCA worked collaboratively with ASD and IT staff to ensure appropriate actions are being taken to address overall SAP security.

Other Monitoring and Administrative Assignments

Other assignment completed by OCA in FY 2012 include:

Title	Objective(s)	Status	Results/Comments
Alternative Fuel Tax Credit Recoveries	Revenue monitoring and recoveries of the Federal government’s alternative fuel tax program (extended through December 31, 2011).	Complete	Working with ASD and the Utilities Department, the OCA prepared and filed claims for \$49,235. The City received payment for the claims in early 2012.

Title	Objective(s)	Status	Results/Comments
Sales and Use Tax Allocation Reviews	The OCA conducts sales and use tax monitoring in-house and also contracts with an outside vendor.	Ongoing	In FY 2012, the OCA submitted multiple inquiries to the State Board of Equalization. As of the end of FY 2012, the City received \$111,253 in total Sales and Use Tax Recoveries (\$82,773 from OCA inquiries and \$28,480 from vendor inquiries). Also, due to processing lags at the State Board of Equalization, there are 53 potential misallocations waiting to be researched and processed (29 from OCA and 24 from the vendor).
City Manager Loan Review	The terms of the loan specify that each year the ASD will recalculate, and the OCA will confirm, the payment amount for the next twenty-six installments of the City Manager's loans.	Complete	<p>We found that ASD has in all material respects correctly calculated the FY 2013 payment installments for the City Manager's loans. We did not verify the City's portfolio rate, payments already made by the City Manager, the remaining term of the loan, or the accuracy of the loan balance as reported by ASD.</p> <p>We found an immaterial discrepancy between our calculation and ASD's calculation of the interest and principal amounts applicable each pay period for the loan balance. We have brought this discrepancy and the underlying cause to the attention of ASD Staff.</p>
Quarterly Reporting	Each quarter, the OCA prepares Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Complete	N/A
Contracting for CAFR and Single Audit Report	Each year, the OCA contracts with an independent, certified public accountant to perform both the City's annual financial audit as well as the annual Single Audit.	Complete	N/A

Other OCA Accomplishments

Other Key Accomplishments for FY 2012 include:

- An external quality control review coordinated through the Association of Local Government Auditors, found that the OCA's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements during the period July 2008 through June 2011
- The OCA received the Gold Award for excellence in Service Efforts and Accomplishments reporting as well as the Certificate of Excellence in Citizen Centric Reporting from the Association of Government Accountants
- The OCA received a 2011 Honorable Mention Knighton Award for best performance audit in the Small Audit Shop category by the Association of Local Government Auditors (ALGA)
- The OCA conducted community outreach on the Service Efforts and Accomplishments Report and the Citizen-Centric Report, meeting with the Library Advisory Commission and the City/School Liaison Committee
- Worked closely with the City Manager and City Attorney in the development of the Hotline Administration Policy
- Senior Performance Auditor, Houman Boussina, earned two professional certifications: Certified Information Systems Auditor (CISA) and Certification in Risk Management Assurance (CRMA)
- Senior Performance Auditors, Houman Boussina and Mimi Nguyen, presented the SAP Security Audit to the Bay Area Association of Local Government Auditors
- Hired a new Senior Performance Auditor, Yuki Matsuura
- Senior Performance Auditor, Yuki Matsuura, was published in *Internal Auditor* magazine for her article titled "Using the Whole Mind for Risk Management"
- Senior Performance Auditor, Ian Hagerman, participated in the quality assurance peer review for the city of Portland, OR



Policy and Services Committee EXCERPT

Special Meeting
Tuesday, September 11, 2012

Auditor's Office Quarterly Report as of June 30, 2012.

Jim Pelletier, City Auditor, presented the quarterly status update of the accomplishments for the fiscal year audits completed. The audit of contract administration was in process and Staff issued the final draft report on September 7, 2012. Staff had five weeks to respond; those responses would be incorporated into the report and Staff would present the final report to the Policy and Services Committee (Committee). The Utility Reserves audit was in process.

Exit conferences were scheduled for September 17, 2012. The final audit in process was the Human Resources Employee Benefits audit which it was currently in the field work stage.

The Service Efforts and Accomplishments (SEA) audit was also in process. Staff would shift their efforts to the SEA audit in the next few weeks.

Council Member Espinosa suggested including a timeline for the audits in process.

Mr. Pelletier reported one temporary, part-time position had been changed to a regular, part-time position. That position recovered approximately \$138,000 in the prior fiscal year in sales and use tax. The position paid for itself from the recovery perspective and the employee was a former auditor who had the experience to assist with other assignments. The Audit Department passed the external quality control review in full compliance with standards. The City received a Knighton Award for the SAP Security Audit. Staff completed the hotline administrative policy, and the hotline went live on August 16, 2012.

Council Member Klein asked if the hotline had received any calls.

Mr. Pelletier noted one call to the hotline concerning a policy. Staff obtained

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a response from the Human Resources Department and answered the caller's question.

Council Member Schmid suggested the status include dates. He did not recall an audit report from the Utilities Department risk assessment but assumed it was included in the Audit Department's overall work plan.

Mr. Pelletier indicated results of the Utilities Department risk assessment was incorporated into the City's overall risk assessment. There was no separate report for that item.

Council Member Schmid asked if there was a separate list of recommendations from that.

Mr. Pelletier answered no. That was purely an assessment.

Council Member Schmid inquired whether the Audit Department was tracking the impacts.

Mr. Pelletier stated there was nothing to track.

Council Member Schmid asked if there were two full audits in process.

Mr. Pelletier stated three audits were in process: contract administration, utilities reserve, and human resources.

Council Member Schmid noted one objective of the human resources audit was to ensure that health premiums and administrative fees were paid accurately. He felt a critical risk area was accurately calculating the premiums and fees.

Mr. Pelletier stated part of the accuracy check was to ensure that payments were accurate.

Council Member Schmid suggested including that in the objectives.

Mr. Pelletier agreed.

Council Member Schmid noted the lack of Special Advisory Memoranda (SAM) and asked how those could be announced.

Mr. Pelletier reported the SAMs tool would be utilized outside the normal audit process. Issues that did not require 600-800 hours for an audit could be reported quickly using a SAM.

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Council Member Schmid inquired whether SAMs would be included in the quarterly reports.

Mr. Pelletier reported a certain number of hours were budgeted for SAMs and he wanted to ensure those hours were utilized for important ideas.

Council Member Schmid noted the sales and use tax numbers in the tables were not identified. The last tables describing the geographic component were year numbers rather than quarterly numbers, even though they were given each quarter. He suggested discussing that prior to preparation of the next report.

Mr. Pelletier indicated he would request the vendor make that change.

Council Member Schmid suggested the report include a breakdown of where resources were spent in the prior year to allow a comparison of the prior year with the current year.

Mr. Pelletier did not have the data he needed to put that together for the current report but it was his intention to include it in the next report.

MOTION: Council Member Espinosa moved, seconded by Council Member Schmid that the Policy & Services Committee accept the Auditor's Office Quarterly Report as of June 30, 2012 and recommend City Council approval.

MOTION PASSED: 4-0

1. Report on the Status of Audit Recommendations (June 2012).

Jim Pelletier, City Auditor, presented the annual report on the status of audit recommendations. The report summarized the status of 64 audit recommendations from eight completed audit reports, including 33 recommendations from the prior status report and 31 new recommendations from audit reports issued during the prior fiscal year. Changes to the report included the finding each recommendation was based on, a rating system for recommendations based on his judgment, and a target date for implementation of audit recommendations. The red circles in the report indicated items he judged were not implemented in a timely manner.

Council Member Espinosa suggested Mr. Pelletier notify Staff when he had concerns. He asked Mr. Pelletier to comment on the many audit

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recommendations not implemented in a timely fashion.

Mr. Pelletier wanted the Policy and Services Committee (Committee) and ultimately the City Council to indicate if the amount of time that had passed from acceptance of audit recommendations was acceptable.

Council Member Espinosa appreciated the reminder to Council but he did not have the information needed to answer the question. If Mr. Pelletier identified an audit recommendation as needing attention, he presumed Mr. Pelletier would raise the issue with Mr. Keene and the Department head to determine if the Council should be involved.

Mr. Pelletier agreed.

Council Member Klein asked if the City Manager's Staff was prepared to respond.

Sheila Tucker, Assistant to the City Manager, indicated the City Manager would work with Mr. Pelletier to reach a consensus on a timeline to complete implementation of the audit recommendations.

Mr. Pelletier reported he had not discussed the issue with the City Manager but would do so.

Council Member Klein preferred to have the City Manager response. He requested color copies be used in future.

Council Member Espinosa reiterated the need for discussion with the City Manager and Department heads prior to the Committee or City Council becoming involved.

Mr. Pelletier apologized for the wording in his report and stated it was not intended to be strongly worded. His intent was to notify the Committee to open issues.

Council Member Espinosa recalled previous reports which included a column indicating the Department head's agreement or explanations.

Mr. Pelletier stated the information in the status update column was

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provided by the Departments.

Council Member Espinosa stated an update was different from agreement or explanation.

Mr. Pelletier indicated the report did not include information on the timeliness of implementation.

Council Member Schmid noted the first two items, overtime and management span of control, dated back to 2003/2004 and had legal issues that needed to be resolved. He asked how Mr. Pelletier would deal with such issues.

Mr. Pelletier reported those two audits were closed. The two audits were unique in that they were very complicated with legal issues that required negotiation.

Audits taking that long to close may be reasonable based on all those factors. Had they not been completed they would not have been timely.

Council Member Schmid inquired whether the issues were relevant by the time they were settled.

Yuki Matsuura, Senior Performance Auditor, reported the City Attorney's Office provided supporting documentation which indicated past actions addressed the finding and allowed closure of the audits for overtime expenditures and audit restructuring.

Council Member Schmid asked if the audits could have been settled previously.

Ms. Matsuura stated that it was a matter of interpretation but the additional communication helped resolve the issues.

Council Member Schmid believed the base problem was information and personnel changes as the issues aged.

Mr. Pelletier indicated his Staff discussed timeliness and relevance of the issues and had discussions with the departments. The departments had

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already taken action to address the recommendations; therefore, the audits were closed.

Council Member Schmid stated no update was provided for Number 3, audits open from January 2008.

Ms. Tucker suggested there was an oversight in providing the update to the Auditor. Assistant City Manager Pam Antil reported on the status of this item. The consultant did not complete the work and did not provide the final deliverables. Staff was working with the City Attorney's Office to terminate the consultant's contract and would need to secure outside assistance to complete the project.

Council Member Schmid asked if the issues needed to be redefined.

Ms. Tucker stated it was an important issue for City Manager Keene. If the records could not be recovered Staff would need to start over.

Council Member Schmid suggested reviewing the audit to ensure it was targeted at the current issues rather than the issues at the time of the audit.

Chair Holman asked when the consultant stopped working and producing information.

Mr. Pelletier believed he stopped working in January 2012.

Chair Holman inquired when the work was expected to be completed.

Ms. Tucker would obtain that information. She believed a work plan was prepared for completion of the work.

Chair Holman stated it was a three to four year plan to accomplish the work.

Ms. Tucker indicated the City did not retain the consultant's services until 2011.

Council Member Schmid said the reports must have been coming in every

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quarter and the Committee should have raised that issue. He asked for comment on the four target dates of August 30, 2012 regarding packet page 28 regarding cash handling.

David Ramberg, Assistant Director Administrative Services Department reported Staff issued an updated travel policy to City Staff which completed the recommendation; however, it was not issued in time to be included in the report. Item number 1, an updated cash handling policy, had a target date of October 31, 2012 and Staff intended to issue the policy by that date.

Council Member Schmid recalled other groups were providing oversight of the library's finances and asked how the City Auditor's assessment was different or unique.

Mr. Pelletier indicated the Auditor's Office could achieve more detail than the other agencies.

Houman Boussina, Senior Performance Auditor reported the focus of the audit was to review controls in terms of policies and procedures to ensure bond funds were used in accordance with the bond measure and any applicable Internal Revenue Service (IRS) provisions. The audit perspective was control, effectiveness, and compliance.

Mr. Pelletier stated the major difference was reviewing the processes and controls underlying expenditures.

Council Member Schmid said the Library Bond Oversight Committee (LBOC) was performing a high level review while the Auditor was reviewing the procedures.

Mr. Pelletier indicated the Auditor was reviewing the process of how expenditures were made and how they complied with specific requirements of the bond measure or IRS requirements.

Council Member Schmid inquired whether the Auditor performed a yearly audit.

Mr. Pelletier reported only one time.

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Council Member Schmid asked if the Auditor assumed the correct procedures were in place as the project continued.

Mr. Pelletier stated the goal was to identify good controls to ensure ongoing compliance with the requirements.

Council Member Schmid inquired whether the Auditor would perform the same work if another large bond issue was approved.

Mr. Pelletier indicated he would if the Council asked for it or if he felt it was a higher risk.

Council Member Schmid asked if the Council could have confidence that the procedures were correct.

Mr. Pelletier answered yes.

Council Member Klein recalled the Committee strongly recommended the rating of recommendations and inquired whether the Auditor's Office received the necessary cooperation and implementation of the audit recommendations.

Mr. Pelletier felt Staff considered the recommendations seriously and took action. Staff faced limited resources and many priorities making it difficult to complete all priorities.

Council Member Klein asked for Mr. Pelletier's comments regarding the three recommendations listed under the SAP Security Audit.

Mr. Boussina felt most of the SAP Security Audit recommendations should be high priority. The Information Technology (IT) Department had taken the recommendations seriously as shown by the number of completed recommendations and changes in the IT Department. With regard to Recommendation Number 5, segregation of duties in terms of account administration functions, one of the significant findings that concerned Staff was potentially having the ability to upgrade their own access in the system. This was a key area of control recognized in information systems. The

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recommendation was essential because of the nature of what could happen if someone with technical knowledge and know-how had capabilities that should be separated.

Mr. Pelletier reported the City's Information Security Manager, Raj Patel and Chief Information Officer, Jonathon Reichental were present for additional questions.

Mr. Boussina reported Recommendation Number 12, adoption and implementation of information system security control frameworks, was considered essential because it established a framework and baseline of controls to ensure that IT was secure throughout the system. Payment Card Industry (PCI) and Data Security Standard (DSS) were also mandated.

Recommendation Number 13, development of the formal and comprehensive security policy consistent with security frameworks, existed to ensure the City had a policy of communicating, understanding, and being aware of security. Because of the security component the Auditor Staff felt it was an essential recommendation.

Council Member Klein noted the recommendations were in progress and asked if Staff was comfortable with the timetable.

Mr. Boussina believed the IT Department was taking the recommendations seriously.

Mr. Pelletier reported the Information Security Manager established a steering committee, developed a comprehensive plan and strategy for information security, and developed a timeline for implementation of the plan and strategy. He was comfortable with their efforts and steps to move in the right direction.

Council Member Espinosa asked why the recommendations were listed as not in progress.

Mr. Boussina indicated there was a plan for implementation of the

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recommendations. The recommendations were being addressed, even though the specific recommendation had not been started.

Mr. Pelletier stated the IT Department's plan was logical in terms of timing. It was a large and comprehensive undertaking and the plan addressed the entire issue over a reasonable period of time.

Council Member Espinosa believed thought should be given to coming to Committee meetings with recommendations identified as essential as well as recommendations not being addressed in a timely fashion. He suggested Mr. Pelletier, City Manager Keene, and Department heads discuss essential recommendations not being addressed in a timely fashion.

Mr. Pelletier agreed.

Council Member Klein recommended calling those recommendations essential and not on track.

Ms. Tucker asked the Committee to consider amending the report to note her verbal update.

MOTION: Council Member Schmid moved, seconded by Council Member Klein that the Policy & Services Committee: 1) accept the Auditor's Office Audit Recommendations (June 2012) and recommend City Council approval including the response to the audit recommendation from the Audit of Employee Ethics Policies provided to the City Auditor by the City Manager and the updated travel and Cash Handling policies, and 2) include sections on "essential and not on track"

MOTION PASSED: 4-0

~~2. Input on Outreach and Development Process for Update of Comprehensive Plan Business and Economics Element.~~

Chair Holman suggested documents be provided in color or use colors that would reproduce clearly in black and white.

FUTURE MEETINGS AND AGENDAS

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Chair Holman indicated the Agenda for October 9, 2012 had two Items: human habitation of vehicles and fire resources services and the utilization study update. She asked if the Items would be ready for the October 9th meeting.

Sheila Tucker, Assistant to the City Manager answered yes.

Council Member Schmid asked if both Items would be substantial.

Chair Holman responded yes. She was uncertain if the meeting should be held in the Council Conference room or in Council Chambers.

Ms. Tucker suggested the meeting be held in Council Chambers.

Chair Holman noted Staff would poll for a second meeting date in October.

Ms. Tucker inquired about the start time of the meeting.

Council Member Klein suggested 7:00 P.M.

Council Member Espinosa would not be available for an early start time.

Chair Holman was uncertain if she would be present on October 9, 2012.

Ms. Tucker indicated City Manager Keene would not be available on October 9, 2012. She suggested polling for another date for the meeting.

Council Member Espinosa wanted to keep the date of October 9th if possible.

Chair Holman stated the meeting would be held on October 9, 2012, with Staff polling for a second meeting date in October.

Council Member Schmid noted the second date could be earlier or later.

Chair Holman suggested moving one of the Items on the October 9th Agenda to the second date if necessary.

ADJOURNMENT: The meeting was adjourned at 7:20 P.M.