



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

January 22, 2013

The Honorable City Council
Palo Alto, California

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

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of September 30, 2012. At its meeting on November 20, 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.

Recommended Action: Accept the Auditor's Office Quarterly Report as of September 30, 2012.

Respectfully submitted,

Jim Pelletier
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of September 30, 2012 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (November 20, 2012) (PDF)

Department Head: Jim Pelletier, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 20, 2012

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

Auditor's Office Quarterly Report as of September 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 September 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 first quarter for FY 2013.

Respectfully submitted,

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

Jim Pelletier
City Auditor

ATTACHMENTS:

- Attachment A: Quarterly Report as of September 30, 2012 (PDF)

Department Head: Jim Pelletier, City Auditor



CITY OF
**PALO
ALTO**

Quarterly Report as of September 30, 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.

First Quarter FY 2012 Update

Overview

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

Below is a summary of our Audit work for the first quarter of FY 2013 (as of September 30, 2012):

Title	Objective(s)	Start Date	End Date	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 	7/12	1/2013	In Process	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. This year's report has been redesigned from the ground up with additional focus on performance management.
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.	1/2012	11/2012	In Process (Reporting)	TBD

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Utilities Reserves Audit	To determine the appropriateness and adequacy of utilities reserves, reserve policies, reserve guidelines, and their usage.	1/2012	12/2012	In Process (Reporting)	TBD
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.	6/2012	12/2012	In Process (Reporting)	TBD

Other Monitoring and Administrative Assignments

Below is a summary of Other Assignments for the first quarter of FY 2013 (as of September 30, 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	The OCA continues to submit inquiries to the State Board of Equalization. As of the end of the first quarter, the City received \$44,287 in total Sales and Use Tax Recoveries (\$7,341 from OCA inquiries and \$39,946 from vendor inquiries). Also, due to processing lags at the State Board of Equalization, there are 54 potential misallocations waiting to be researched and processed (29 from OCA and 25 from the vendor).
Quarterly Reporting	Each quarter, the OCA prepares Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	N/A

Fraud, Waste, and Abuse Hotline Administration

On August 16, 2012, we launched the City's Fraud, Waste, and Abuse Hotline. Below is a summary of Hotline Activity for the first quarter of FY 2013 (as of September 30, 2012):

Category	Number	Action Taken
Inquiry	1	No Action Required



POLICY AND SERVICES COMMITTEE DRAFT EXCERPT

Special Meeting
November 20, 2012

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

Jim Pelletier, City Auditor would provide a detailed update at the end of the second quarter, when the Policy and Services Committee (Committee) would review the audit plan in more detail. At that time, he would recommend changes to the audit plan and provide more information. The City Auditor's Office Staff was working on the annual Service Efforts and Accomplishments (SEA) Report. They were redesigning the report to make it user friendly and visually appealing, and to focus on performance management. The Contract Oversight Audit was complete; the Utilities Reserves Audit and the Human Resources Employee Benefits Audit were in the final reporting stages and scheduled to be reported in early December 2012. Ongoing assignments were the sales and use tax allocation review and quarterly audits. As of the end of the first quarter, the City received slightly more than \$44,000 in total sales and use tax recoveries, approximately \$7,000 from direct analysis by the Audit Staff and approximately \$40,000 from the vendor. Potentially 54 misallocations remained outstanding with the State Board of Equalization, 29 from Audit Staff and 25 from the vendor. Staff anticipated additional recovery as the year progressed. New for the quarterly report was an update on the fraud, waste and abuse hotline, implemented on August 16, 2012. As of the end of September 2012, the hotline received one call, which was an inquiry regarding City policy. No follow-up action was required. The hotline received two additional calls, which would be reported in the next quarter.

Council Member Schmid inquired whether the Human Resources Employee Benefits report would be available prior to the December 10, 2012 City Council meeting.

Mr. Pelletier indicated it would be provided in the December 10, 2012 Packet.

DRAFT EXCERPT

MOTION: Council Member Schmid moved, seconded by Council Member Espinosa to recommend the City Council approve the Auditor's Office Quarterly Report as of September 30, 2012.

MOTION PASSED: 4-0