



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

May 13, 2013

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of March 31, 2013

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of March 31, 2013. At its meeting on April 9, 2013, 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 March 31, 2013.

Respectfully submitted,

Jim Pelletier
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of March 31, 2013 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (April 9, 2013) (PDF)

Department Head: Jim Pelletier, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

April 9, 2013

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

Auditor's Office Quarterly Report as of March 31, 2013

RECOMMENDATION

The Office of the City Auditor recommends the Policy and Services Committee review and recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of March 31, 2013.

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 third quarter for FY 2013.

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 March 31, 2013 (PDF)

Department Head: Jim Pelletier, City Auditor



CITY OF
**PALO
ALTO**

Quarterly Report as of March 31, 2013



Office of the City Auditor

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

FY 2013 Third Quarter 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 third quarter of FY 2013 (as of March 31, 2013):

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 assist users in assessing whether the City is achieving its goals and objectives in an efficient and effective manner and to assist the City in meeting its responsibilities to be publicly accountable in the stewardship over public resources.	7/2012	2/2013	Complete	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 in hardcopy from the OCA. This year's report has been redesigned from the ground up with additional focus on performance management.
Inventory Management – Utilities (formerly Utilities Asset Management)	Specific concerns regarding the effective and efficient safeguarding of certain assets were identified during the Risk Assessment process. This audit will follow up on those concerns and assess the adequacy of controls over Utilities assets including compliance with relevant policies and the Municipal Code.	2/2013	7/2013	In Process	TBD

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
SAM – Cash Handling	This Special Advisory Memorandum (SAM) is a non-audit service being provided by the City Auditor's Office. The Office is working closely with ASD staff and certain departments to identify and fix gaps on the City's cash handling policies and procedures.	2/2013	4/2013	In Process	TBD

Other Monitoring and Administrative Assignments

Below is a summary of Other Assignments as of the third quarter of FY 2013 (as of March 31, 2013):

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 third quarter, the City received \$98,220 in total Sales and Use Tax Recoveries. Also, due to processing lags at the State Board of Equalization, there are 44 potential misallocations waiting to be researched and processed (21 from OCA and 23 from the vendor). Total Sales and Use Tax Recoveries: FY 2013 (\$34,548 from OCA inquiries and \$63,672 from vendor inquiries).
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 as of the second quarter of FY 2013 (as of March 31, 2013):

Complaint Number	Category	Status	Action Taken
1	Inquiry	Closed	Inquiry answered – No Further Action
2	Improper Receipt of Gifts, Favors, or Money	Closed	Unsubstantiated - Closed
3	Substance Abuse	Closed	Unsubstantiated – Referred for Further Action ¹
4	Bribery/Kickbacks	Open	Investigation in Progress
5	Policy Violation/Theft of Time	Open	Investigation in Progress
6	Bribery/Kickbacks, Theft, Inappropriate Behavior	Open	Investigation in Progress

¹ While the allegations made in this case were found to be unsubstantiated, the Human Resources Department took action to clarify the related policy.



POLICY AND SERVICES COMMITTEE EXCERPT MINUTES

Regular Meeting
April 9, 2013

Auditor's Office Quarterly Report as of March 31, 2013.

Jim Pelletier, City Auditor, explained the City Charter required the City Auditor's office perform quarterly audit reports and present them to the Council. In the Current Activities section of the Staff Report the Service Efforts and Accomplishments (SEA) report was completed and previously presented, the Inventory Management audit is in progress; the previous title was Utilities Asset Management. Based on the preliminary survey, concerns arose with the departments that stored assets at the Municipal Service Center (MSC) as well as multiple off-site locations. The Special Advisory Memorandums (SAMS) involving cash handling where the Audit Department was working closely with the Administrative Services Department (ASD) to identify and repair gaps in the system was coming to a close.

The sales and use tax monitoring had registered a total of \$98,000 in recoveries by the end of the third quarter. There was a total of 44 percent of misallocations waiting to be researched and processed by the state. The Hotline had received six calls since its inception in August of 2012.

Council Member Price asked how a change in scope of particular audit implicated the remainder of the scheduled work plan.

Mr. Pelletier stated in the event an audit altered the work plan, during the mid-year Staff would bring forward budget modifications and request planned audits of slighter importance may be pushed back.

MOTION: Council Member Holman moved, seconded by Council Member Price to recommend the City Council accept the Auditor's Office Quarterly Report as of March 31, 2013.

MOTION PASSED: 4-0