



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

January 13, 2014

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of September 30, 2013 and the Revised FY 2014 Work Plan

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of September 30, 2013. At its meeting on November 19, 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.

Respectfully submitted,

Houman Boussina
Acting City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of September 30, 2013 and Revised FY 2014 Work Plan (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (November 19, 2013) (PDF)

Department Head: Houman Boussina, Acting City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 19, 2013

The Honorable City Council
Palo Alto, California

City Auditor's Office Quarterly Report as of September 30, 2013 and the Revised FY 2014 Work Plan

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 September 30, 2013 and the Revised FY 2014 Work Plan.

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 2014 and an updated FY 2014 Work Plan.

ATTACHMENTS:

- Attachment A: Quarterly Report as of September 30, 2013 and Revised FY 2014 Work Plan (PDF)

Department Head: Houman Boussina, Acting City Auditor



CITY OF
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Quarterly Report as of September 30, 2013



Office of the City Auditor

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

Fiscal Year (FY) 2014 First Quarter Update (July – September 2013)

Overview

The audit function is essential to the City of Palo Alto's public accountability. As mandated by the City Charter and Municipal Code, the mission of the Office of the City Auditor (OCA) is to promote honest, efficient, effective, and fully accountable city government. We conduct performance audits and reviews to provide the City Council and City management with information and evaluations regarding the effectiveness and efficiency with which resources are employed, the adequacy of the system of internal controls, and compliance with policies and procedures and regulatory requirements. Taking appropriate action on our audit recommendations will help the City to reduce risks and protect its good reputation.

Former City Auditor Jim Pelletier left the office on September 12, 2013. Houman Boussina, Senior Performance Auditor, has been appointed as Acting City Auditor until the recruitment for a new City Auditor is completed.

Audits

Below is a summary of our audit work for the first quarter of FY 2014 (as of September 30, 2013):

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
SAM ¹ – Follow-up to the 2008 Audit of Employee Ethics Policies and Results of 2013 Ethical Climate Survey	This Special Advisory Memorandum (SAM) provides an update to the 2008 Audit of Employee Ethics Policies and also includes the results of an Ethical Climate Survey we conducted in May 2013. The objective of this survey was to understand how City employees view ethics at work and identify any ethics related risks that may need to be addressed.	5/2013	8/2013	Complete	The overall score of the City's first Ethical Climate Survey was medium. Based on the Institute for Local Government Scoring Matrix, this means that the City's overall ethical climate is good but has room to improve.

¹ A Special Advisory Memorandum (SAM) is utilized to communicate the results of time critical engagements including limited assessments, reviews, or evaluations as requested by management or the Council. These non-audit services do not typically conform to rigorous audit standards, but allow for important information to be provided to management in a quick, flexible manner and can be focused on singular issues.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Inventory Management Audit (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	12/2013	In Process	In process as of 9/30/13. Met with management in September 2013 to discuss a preliminary draft outline of issues.
Contract Oversight Audit: Trenching and the Installation of Electric Substructure	This audit was initiated based on concerns raised in a hotline investigation. The audit objective was to determine if the Utilities Department effectively managed its \$1.9 million contract with Casey Construction, Inc. for trenching services and the installation of electric substructure, in accordance with contract terms, the City of Palo Alto Municipal Code (Municipal Code), and relevant policies and procedures.	1/2013	12/2013	In Process	In process as of 9/30/13. The audit report was presented to the Finance Committee on 11/5/13. To be scheduled on the City Council consent calendar in December 2013.
Solid Waste Program Audit	To determine whether there are adequate controls in place to effectively manage the City's Solid Waste Program to ensure sufficient revenue to recover the cost of services while pursuing zero waste goals in accordance with applicable laws, regulations, and City policies and procedures.	5/2013	1/2014	In Process	To be determined (TBD)

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Performance Report (formerly the Service Efforts & Accomplishments report) / 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.	8/2013	1/2014	In Process	These reports for FY 2013 will provide comprehensive and historical data and analysis that is not available in any other single report in the City. The reports will be available online and in hardcopy. The FY 2013 Performance Report will continue with last year's redesigned format to provide an additional focus on performance management.

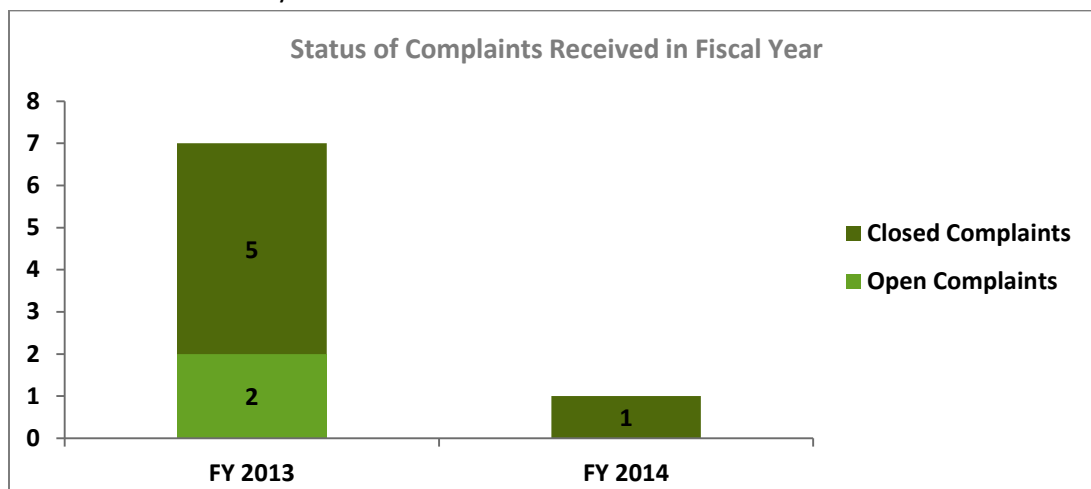
Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of the first quarter of FY 2014 (as of September 30, 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 first quarter, the City received \$93,331 in total Sales and Use Tax Recoveries. Due to processing lags at the State Board of Equalization, there are 41 potential misallocations waiting to be researched and processed (16 from OCA and 25 from the vendor). Total Sales and Use Tax Recoveries: FY 2014 (\$47,161 from OCA inquiries and \$46,170 from vendor inquiries).
Quarterly Reporting	Each quarter, the OCA provides Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	N/A
City Auditor Advisory Roles	Provide guidance and advice to key governance committees within the City.	Ongoing	The City Auditor is an advisor to the following: Utilities Risk Oversight Committee, the Library Bond Oversight Committee, the Information Technology Governance Review Board, and the Information Security Steering Committee.

Fraud, Waste, and Abuse Hotline Administration

On August 16, 2012, we launched the City's Fraud, Waste, and Abuse Hotline. As of September 30, 2013, we have received a total of eight complaints, of which all but two have been closed. One of the complaints resulted in an audit we conducted to address concerns about contract oversight. The chart below summarizes the status of complaints received in each fiscal year.



Source: City of Palo Alto hotline case management system as of September 30, 2013

The hotline review committee (composed of the City Auditor, the City Attorney, and the City Manager or their designees) meets as needed to review all activity related to the hotline. During the first quarter of FY 2014, there was one new complaint (complaint number 8) submitted, two complaints were closed, and two existing complaints remained under investigation. Below is a summary of hotline activity during the first quarter of FY 2014 (as of September 30, 2013):²

Complaint Number	Category	Date Opened	Status	Action Taken
4	Bribery/Kickbacks	1/2013	Closed	Unsubstantiated – Closed ³
5	Policy Violation/Theft of Time	2/2013	Open	Investigation in Progress
7	Policy Violation/Theft of Time	5/2013	Open	Investigation in Progress
8	Hostile Work Environment	7/2013	Closed	Unsubstantiated - Closed

Source: City of Palo Alto hotline case management system activity (July 1, 2013 through September 30, 2013)

² This table includes cases opened, closed, or ongoing during the quarter. Cases closed in prior periods are not included.

³ While the allegations in this case could not be substantiated, we detected a minor violation of the City's gift policy and provided management recommendations for corrective action. We conducted a contract oversight audit as a result of other concerns raised during the investigation (see the Revised Fiscal Year 2014 Work Plan on page 6).

Revised Fiscal Year 2014 Work Plan⁴

The following table summarizes the revised FY 2014 work plan. The original work plan was presented to the Policy and Services (P&S) Committee on September 10, 2013. The FY 2014 Work Plan includes three audits carried over from the FY 2013 work plan and four new audits.

Audit	Department	Preliminary Scope*	Planned Hours* ⁵	Council Committee
Inventory Management <i>(formerly Utilities Asset Management)</i>	ASD, Multiple	Carryover from FY 2013. To determine if the City has adequate controls to ensure accuracy and completeness of inventory records, accountability for inventory movements, and the safeguarding of inventory and associated assets at the Municipal Services Center (MSC) and Regional Water Quality Control Plant (RWQCP).	450	Finance
Solid Waste Program	Public Works	Carryover from FY 2013. To determine whether there are adequate controls in place to effectively manage the City's Solid Waste Program to ensure sufficient revenue to recover the cost of services while pursuing zero waste goals in accordance with applicable laws, regulations, and City policies and procedures.	650	Finance
Contract Oversight Audit	Utilities, ASD	Carryover from FY 2013. This is a new audit created as a result of a hotline investigation. The audit reviews the efficiency and effectiveness of controls over certain Utilities Department contracts.	400	Finance
Software License Management	IT, Multiple	New in FY 2014. The Information Technology (IT) Department has identified ~222 applications within the City. This audit will evaluate controls over software license management to ensure the City is in compliance with relevant agreements and is using all licenses it is paying for. Will carry over into FY 2015.	500	P&S
Utilities – Contract Solicitation and Award ⁶	Utilities	New in FY 2014. To evaluate the efficiency and effectiveness of controls over contract solicitation and award within the Utilities Department.	100 ⁶	N/A ⁶
Utilities Customer Service - Rate and Billing Accuracy	Utilities	New in FY 2014. To evaluate whether rates are properly implemented and whether customers are accurately billed by the City. Will carry over into FY 2015.	800	Finance
Franchise Fee Audit	IT	New in FY 2014. To determine if the franchisees have accurately calculated and remitted franchise fees in accordance with the Palo Alto Municipal Code and whether the City has adequate controls to discharge its responsibilities to administer and enforce state franchises. Will carry over into FY 2015.	600	Finance

*Preliminary scope and/or planned hours may change based upon the preliminary survey of the audit.

⁴ The work plan includes audits identified and prioritized through the annual risk assessment process. The work plan does not include hours for the Performance Report (formerly the Service Efforts and Accomplishments report and Citizen Centric Report).

⁵ Planned hours for audits carried over from FY 2013 indicate remaining hours budgeted for FY 2014. For new audits, planned hours indicate the total budget for the audit.

⁶ Although originally planned as an audit, we plan to conduct this work as a non-audit service and to issue a Special Advisory Memorandum (SAM).

Audit Horizon

The table below summarizes one audit deferred from the original FY 2014 Work Plan and four audits suggested by members of the Policy and Services Committee on September 10, 2013. While we plan to include these audits in our annual risk assessment process, the Policy and Services Committee may request the Office of the City Auditor to either substitute work planned for FY 2014 with one or more of these audits or to include one or more of these audits in the FY 2015 Work Plan.

Audit	Department	Preliminary Scope*	Planned Hours*	Council Committee
Construction Project – Change Order Management	Public Works	Evaluate the efficiency and effectiveness of controls over the change order process within a major construction project.	800	P&S
Public Benefits	Planning and Community Environment	Evaluate whether benefits and funds are properly accounted for and if funds are utilized in accordance with relevant regulations, policies, and governing documents.	600	P&S
Special Districts (Parking) Funds	Planning and Community Environment	Determine whether parking funds (special assessment districts or Planned Community zones) are properly accounted for and utilized in compliance with applicable laws, regulations, policies, and governing documents.	400	P&S
Disability Rates and Workers' Compensation	People, Strategies, & Operations	Assess the effectiveness and efficiency of activities to manage and minimize disability retirements and workers' compensation claims. May include a review of processes to ensure employee safety, tracking and reporting activity, contract administration, and efficiency of claim processing.	700	P&S
Procurement	Administrative Services	Assess the effectiveness and efficiency of the procurement process, with a focus on efficiency and timeliness.	800	P&S

*Preliminary scope and/or planned hours may change based upon the preliminary survey of the audit.



Policy and Services Committee Minutes Excerpt

Special Meeting
November 19, 2013
6:00 PM

Chairperson Kniss called the meeting to order at 6:17 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Holman, Klein, Kniss (Chair), Price

Absent:

Chair Kniss stated Agenda Item Number 2 would be discussed prior to Agenda Item Number 1.

1. City Auditor's Office Quarterly Report as of September 30, 2013 and the Revised FY 2014 Work Plan.

Houman Boussina, Acting City Auditor, provided written summaries of the audit work in the Fiscal Year (FY) 2014 Work Plan, other monitoring and administrative assignments, and the Fraud, Waste and Abuse Hotline administration cases. A revised FY 2014 Work Plan was compiled with considerations for new staffing and priorities. The Policy and Services Committee (Committee) requested Staff consider five areas for possible audits. Those areas were listed on the Audit Horizon. The Committee could direct Staff to prioritize those areas within the FY 2014 or FY 2015 Work Plans. Audit Staff utilized a risk assessment process that selected the audits to be performed.

Chair Kniss asked if the audits on the Audit Horizon could be accomplished in FY 2014.

Mr. Boussina replied no.

Chair Kniss asked if the Committee should select which audits Staff performed.

Mr. Boussina indicated the Committee could do that. The existing FY 2014 Work Plan was based on a risk assessment process and the number of hours budgeted for audits.

Council Member Price inquired whether the risk assessment for the Committee's proposed areas was not sufficient to warrant modification of the

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Work Plan. The revised FY 2014 Work Plan included the audits with the most risk and needed to be performed timely.

Mr. Boussina answered yes, to the best of his knowledge.

Council Member Holman inquired about the action Staff sought with respect to the Audit Horizon.

Mr. Boussina noted the Committee requested Staff consider those areas for audit. After speaking with departmental Staff, he felt those audits could be accomplished. However, he asked the Committee to decide whether to substitute one or more of those audits for audits in the FY 2014 Work Plan or to add one or more to the FY 2015 Work Plan. Otherwise, he would proceed with audits selected by the risk-based process.

Council Member Holman asked if Staff had insufficient time to accomplish another audit.

Mr. Boussina responded yes. Audits would have to be substituted.

Council Member Holman inquired whether audits in the Work Plan were based on existing evidence that they were the higher risk items.

Mr. Boussina answered yes.

Council Member Holman asked if the audit regarding Contract Oversight, Trenching and Installation of Electric Substructure would be placed on the Council Consent Calendar because of a unanimous vote by the Finance Committee.

Mr. Boussina replied yes. He presented that audit to the Finance Committee which voted unanimously to accept the audit.

Council Member Holman inquired whether Staff would add audits from the Audit Horizon to the FY 2015 Work Plan unless circumstances changed.

Mr. Boussina explained the new City Auditor would include them as part of the risk assessment model, unless the Committee requested they be included in a Work Plan.

Chair Kniss indicated audits on the Audit Horizon did not fall into a risk assessment category. She asked if the Committee could direct Staff to substitute one of the audits.

Mr. Boussina replied yes.

MINUTES

MOTION: Council Member Klein moved, seconded by Council Member Price that the Policy & services Committee move the City Council accept the Auditor's Office quarterly report as of September 30, 2013 and the revised FY 2014 Work Plan.

MOTION PASSED: 4-0