



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 4, 2014

The Honorable City Council
Palo Alto, California

Acceptance of the Auditor's Office Quarterly Report as of March 31, 2014

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of March 31, 2014, which the Policy and Services Committee reviewed at its meeting on May 13, 2014. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of March 31, 2014 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (May 13, 2014) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

May 13, 2014

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

Auditor's Office Quarterly Report as of March 31, 2014

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 March 31, 2014.

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 2014.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of March 31, 2014 (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Quarterly Report as of March 31, 2014



Office of the City Auditor

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

Fiscal Year (FY) 2014 Third Quarter Update (January – March 2014)

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.

The Association of Local Government Auditors (ALGA) awarded the City of Palo Alto Office of the City Auditor the 2013 Silver Knighton Award in the small audit shop category for the Inventory Management Audit issued in December 2013. The Knighton Award recognizes the best performance audit reports each year.

The City Council appointed Harriet Richardson as City Auditor on April 7, 2014. Her start date was April 15, 2014.

Audits

Below is a summary of our audit work for the third quarter of FY 2014 (as of March 31, 2014):

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	3/2014	Complete	These reports provide comprehensive and historical data and analysis for FY 2013 that is not available in any other single report in the City. The reports are available online and in hardcopy. The FY 2013 Performance Report continues with last year's redesigned format to provide an additional focus on performance management.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Solid Waste Program Audit	To evaluate whether the Public Works Department effectively manages the City's Solid Waste Program to ensure accurate refuse billings, ensure sufficient revenue to recover the cost of services, and provide reliable and useful financial and operational data in support of management's strategic and operational decisions.	5/2013	6/2014	In Process	To be determined (TBD)
Franchise Fee Audit	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.	2/2014	10/2014	In Process	To be determined (TBD)
Audit of Meters: Procurement, Inventory, and Retirement	To determine if proper procedures were followed with the procurement, inventory, and retirement of utility meters	3/2014	8/2014	In Process	To be determined (TBD)

Other Monitoring and Administrative Assignments

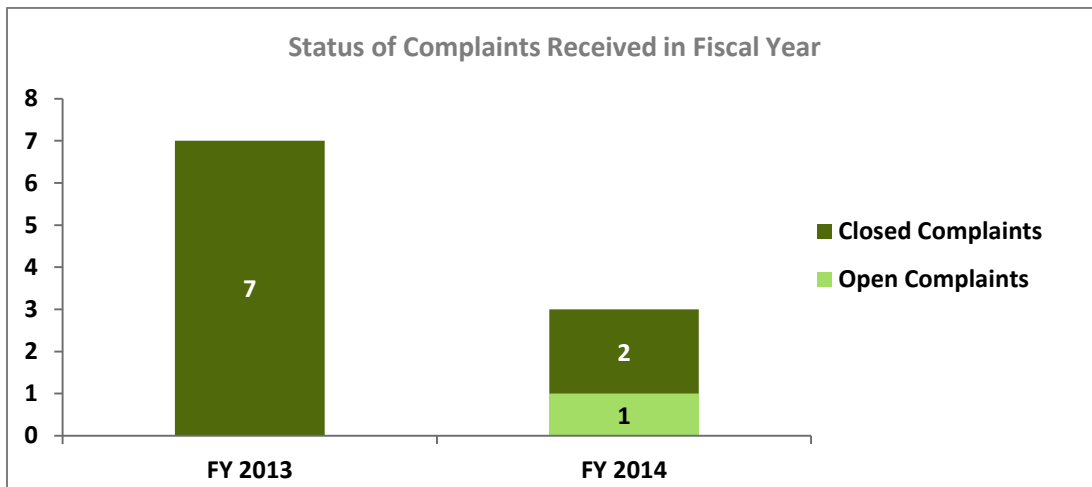
Below is a summary of other assignments as of the third quarter of FY 2014 (as of March 31, 2014):

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	<p>The OCA continues to submit inquiries to the State Board of Equalization. As of the end of the third quarter, the City received \$150,450 in total sales and use tax recoveries. 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).</p> <p>Total Sales and Use Tax Recoveries: FY 2014 (\$85,951 from OCA inquiries and \$64,499 from vendor inquiries).</p>

Title	Objective(s)	Status	Results/Comments
Quarterly Reporting	Each quarter, the OCA provides Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	Quarterly reports are published on the OCA website at www.cityofpaloalto.org/gov/depts/aud/reports/default.asp .
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 March 31, 2014, we have received a total of ten complaints. Nine have been closed and the one open complaint is under investigation. The chart below summarizes the status of complaints received in each fiscal year.



Source: City of Palo Alto hotline case management system as of March 31, 2014

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 third quarter of FY 2014, there was one new complaint (complaint number 10) submitted, which is currently being investigated. Below is a summary of hotline activity during the third quarter of FY 2014 (as of March 31, 2014):¹

Complaint Number	Category	Date Opened	Status	Action Taken
10	Policy Violation/Theft of Time	2/2014	Open	Currently under investigation

Source: City of Palo Alto hotline case management system activity (January 1, 2014 through March 31, 2014)

¹This table includes cases opened, closed, or ongoing during the quarter. Cases closed in prior periods are not included.



POLICY AND SERVICES COMMITTEE

EXCERPT MINUTES

Special Meeting
May 13, 2014

Chairperson Price called the meeting to order at 6:05 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Klein, Price (Chair), Schmid, Scharff

Absent:

3. Auditor's Office Quarterly Report as of March 31, 2014.

Harriet Richardson, City Auditor, advised that the Quarterly Report provided the status of audit work completed during the quarter as well as audits in progress. In the past quarter, the City Auditor's Office received the Silver Knighton Award in the small shop category for the Inventory Management Audit. Staff provided the Performance Report, formerly known as the Service Efforts and Accomplishments (SEA) Report, annually to give a historical trend analysis of five years of data for each City Department. The end date was the actual date reports were presented to committees. Within the Solid Waste Program Audit, the objective was clarified from the previous report. The audit focused on the accuracy of service data and billing data. That report was scheduled to be presented to the Finance Committee on June 3, 2014. The Franchise Fee Audit would determine if franchisees accurately calculated and remitted fees to the City and whether the City had adequate controls in place to discharge its responsibilities for administering franchise contracts. The Audit of Meters, Procurement Inventory, and Retirement was a result of the previous Inventory Management Audit. The audit would address the efficiency and effectiveness with which the Utilities Department tracked procurement, inventory, and retirement of meters. That audit was in progress and could be presented in August 2014. An ongoing responsibility for the City Auditor was the sales and use tax allocation reviews. Staff contracted with a vendor who supplemented the City Auditor's work. Year to date, the City had received a total \$150,000 in reallocation of sales tax and use tax. Auditor Staff identified approximately \$86,000 of that amount and the vendor identified approximately \$64,000. Staff performed a quarterly reporting of sales tax updates and posted those on the City Auditor's web site. The City Auditor participated as an advisor to the Utilities Risk Oversight Committee, the Library Bond Oversight Committee, the Information Technology (IT) Governance Review Board, and the Information Security Steering Committee. She focused on being an advisor rather than a voting member. In August 2012 the City launched the

hotline for reporting fraud, waste, and abuse. To date ten complaints had been received. Three complaints occurred in fiscal year 2014. One of the three remained under investigation.

Chair Price requested comments regarding efforts to market the hotline.

Ms. Richardson indicated other offices advertised and provided posters and business cards for hotlines. Those were inexpensive ways to encourage people to report anything that might be fraud, waste, or abuse.

Chair Price requested an explanation of the process that determined whether audit reports were presented to the Finance Committee or the Policy and Services Committee. Ms. Richardson had mentioned a discrepancy between the Ordinance and guidelines.

Ms. Richardson reported the Municipal Code stated that the Finance Committee would receive audits, but was silent regarding the Policy and Services Committee receiving audits. A previous City Auditor split reports between the Policy and Services Committee and the Finance Committee depending on the topic. Enterprise Fund audits were presented to the Finance Committee. Anything else was presented to the Policy and Services Committee. If there was a strong financial implication for something that was not an Enterprise Fund Audit, then the previous City Auditor would present it to the Finance Committee. The section of the Municipal Code pertaining to the City Auditor was inconsistent. She planned to update the City Auditor Section of the Municipal Code to reflect current auditing standards and could clarify that point as well.

Council Member Scharff suggested the City Auditor present it to the Policy and Services Committee as an agenda item. The Policy and Services Committee should recommend changes to the Municipal Code to the Council.

MOTION: Council Member Scharff moved, seconded by Council Member Klein to bring this Item back to Policy and Services Committee for further discussion and recommendation to Council on alignment of the Municipal Code and current government auditing standards.

Ms. Richardson asked if she should include revisions regarding auditing standards.

Council Member Scharff answered yes.

Chair Price asked if the item could return as soon as possible.

Ms. Richardson would present information after the Council break.

MOTION PASSED: 4-0

Council Member Schmid felt the Solid Waste Audit was significant, but did not believe other audits had an impact. There were no audits of topics that were critical problems for the Council. An independent audit would be good, yet there never seemed to be an audit for those types of topics.

Ms. Richardson reported the City Auditor in the past conducted a risk assessment based primarily on demographic information. She wanted to conduct audits that involved questions for management regarding processes, issues, areas of concern. From the questions and responses, she could glean information that management might not specifically address. The audit plan for the next fiscal year would be based on input from Council Members and the City Manager. In future years, she would implement a robust risk assessment-based process.

Council Member Scharff asked if she would seek approval of the audit plan.

Ms. Richardson answered yes, because approval was required in the Municipal Code.